



Hungary Economic Newsletter December 2015 - January 2016

Embassy of the Kingdom of the Netherlands

Embassy news

CSR Roadshow - are you interested?

In April 2016 (7th in Miskolc, 14th in Veszprém and 21st in Szekszárd) the Embassy of the Netherlands in Budapest organises a series of capacity building events in three cities of Hungary, a 'Roadshow' for local NGOs and Dutch companies present on the Hungarian market. These events intend to link three sectors – NGO, local government and corporate - in order to foster cooperation and partnership, emphasise on existing best practices and initiate dialogue.

A company that exercises CSR will strive to achieve optimal results for people, the environment and the company. Corporate social responsibility is not a onetime donation, but a long-term business strategy, an investment in achieving social change and in a mutually beneficial cooperation. At these events you will discuss a relatively new relationship with Hungarian NGO`s, you will get inspired by seeing best practices and will be given the possibility to meet potential future partners.

If you agree with these principles and you think your company should be involved in the Roadshow, send an e-mail until 12th February to Éva Szabó : eva.szabo@minbuza.nl

Embassy visit to OG&D Ltd

In the first week of January, Ambassador [Gajus Scheltema](#) paid a visit to OGD's Budapest Office and met [David LeClair](#), Managing Director of OGD Ltd. The company is a subsidiary of Holland registered Sand Hill Petroleum BV. Due to innovations in the industry and improved regulatory environment, it has become a successful operator in the Hungarian Petroleum Industry. At present OGD owns 100% of OGD Central Kft., which holds beside the Körös exploration license 3 production licenses (Mezőtúr-V, Tiszakécske-I, Szolnok-V and -VI - totalling 136 km² area).

EU Presidency Press Conference and Opening Event

On the 21st of January the embassy organized a press conference with the presence of Ambassador Scheltema and Gábor Zupkó, the new Head of Representation of the European Commission in Hungary about the top priorities of the Netherlands Presidency of the Council of the European Union which takes place in the first half of this year. In the following months the Netherlands wants the European Union to focus on what matters to Europe's citizens and businesses - prosperity, freedom and security. During its term, the Netherlands will work to improve European cooperation and will concentrate on the following priority areas: migration and international security; Europe as an innovator and job creator; sound finances and a robust Eurozone and a forward-looking climate and energy policy. The Presidency believes that these goals can only be achieved by developing a Union that puts people first, involving them in EU decision-making. During the press conference the journalists could also get some insight into the planned programmes of the embassy for the first half of the year.

On the following day we have celebrated the EU Presidency on the City Park Ice Rink with a great ice-skating show performed by Dutch and Hungarian dancers in traditional costumes. The 200 invited guests saw our ambassador skating around on traditional wooden skates joined by celebrity András Hajós on a toboggan/sleigh. The public had the possibility to taste the Dutch most finest winterspecialities like “koek en zopie” and the famous Dutch pea soup (erwtensoep). You can watch the movie on our Facebook page:

<https://www.facebook.com/media/set/?set=a.998539600206915.1073741863.286713331389549&type=3>Netherlands EU Presidency event at City Park Ice Rink

EU relations

EU subsidy payments peak

With tremendous efforts to speed up payment procedures at the end of the previous financial framework period, Hungarian administrative institutions paid out HUF 2.329 trn (EUR 7.4bn) in EU funds last year. This was HUF 100bn above the official target, *Népszabadság* calculates. Of that total, HUF 284bn was disbursed in December, due to a small number of large projects.

OLAF suspects abuse of anti-corruption funding

The EU's anti-fraud office (OLAF) suspects that Hungarian inspectors have stolen EU funds awarded for anti-corruption purposes, HVG reports. OLAF found fraudulent invoices and cash payments at the subcontractors of consulting company 2013 Quality Consortium that was working for the former national development agency NFÜ. The anti-fraud agency called for a full correction of the subsidy, in effect the repayment of HUF 2.4bn. Chief Prosecutor Peter Polt confirmed that prosecutors began an investigation in July into possible tax evasion, bribery, fraudulent bankruptcy, falsifying documents and passive corruption suspected by OLAF.

EC demands more info on Paks

The government has not provided sufficient information in the matter of the expansion of the Paks nuclear power plant to convince the European Commission that the project is implemented on a market basis, according to an EC statement. It says “Hungary has not provided sufficient information whether the investment is profitable on economic terms, taking into account the allocation of risks under the contract, and expectations on future revenues (based on future electricity prices)”. The Commission began a preliminary investigation in March 2014 – shortly after the government signed a contract with Russia for a EUR 10bn loan to finance the project – into the possibility that illegal state aid was involved. Hungary formally declared on May 22, 2015 that the project involves no state aid. The cabinet then attempted to argue in two studies, written later, that the project is being implemented without state subsidies, but these failed to convince the Commission, *Népszabadság* writes. The cabinet claims that the project will ultimately pay for itself on a market basis. However, others say that this could happen only if the price of electricity doubles, which no independent analysis says is likely, therefore the state will have to draw on tax-payers' funds. The Commission says Hungary has to prove that the state subsidy for the expansion can be reconciled with EU regulations, while the cabinet denies any state subsidy.

Business environment | Legislation

More companies deregistered

Some 44,700 companies have been deleted from the official register this year, 4% more than last year, website feketelista.hu reports. More companies were deregistered than created in all 19 counties. In Budapest, twice as many, 20,534, companies were removed from the list as were added.

The main factor is a regulation that allows the Court of Registry to delete companies that have not supplied their annual accounts, without the right of appeal. Economists contend that there are still too many companies. One reason is that, of 565,144 companies registered, more than a third, 194,000, are not functional, but exist only on paper.

Hungarian CEOs positive on economy

Hungarian CEOs have become more optimistic about economic growth and prospects of expanding their business, according to the Capital Confidence Barometer compiled by consulting firm Ernst & Young. Since last year, the proportion of company heads expecting the economy to grow or be stable rose from 60% to 80%. The global survey showed similar optimism among company leaders.

Roughly 45% of CEOs in Hungary plan to expand payroll in the next 12 months, and 45-49% expect to keep employment level. Some 70% of the top executives planned to expand their business, compared with 33% in the global survey. On another question, 45% said they are planning to engage in a merger or acquisition in the next 12 months.

Another conjuncture forecast, however, the acceleration indicator GYIA, a gauge of future economic growth compiled by *Világgazdaság* on a monthly basis, was up by an annual 2.4% in January, the lowest figure in two and half years. Macroeconomic indices were helped by rises in consumption, real wages, and industrial production. Prospects for of the latter, however, are clouded by lower volume of new orders. The collapse of oil prices and the low inflationary environment are likely to give a boost to growth and keep it stable above 2%, even as some one-off effects, such as the MNB's stimulus programme, are phased out, the newspaper adds.

Corruption widespread “at other companies”

Corruption is an accepted phenomenon in business life in Hungary, everybody knows about it but executives would rather ignore it than face up to it at their own companies, consultancy Ernst & Young found in its annual survey. Compared to the surveys of 2010 and 2011, executives are more willing to speak about corruption. On a scale of 1-10, executives rate that corruption as an established practice in Hungary at 4.9. However, they rate the possibility of corruption at their own companies as less than 1. Of the 305 executives asked, 6-17% would be prepared to pay a bribe in order to secure the survival of his or her company.

Company payment discipline improves

Payment discipline among Hungarian companies improved in the third quarter, as 70% of invoices were paid on time, a slight increase from 67% one year earlier, according to consulting firm Bisnode. On average, firms settled their invoices in 24 days, one day less than a year ago, which is a positive trend, Bisnode noted. The average payment period varied in a range of 24-36 days between sectors. Catering is considered the most risky sector, as it has the highest rate of insolvency, even as the sector reported a good year backed by a strong summer season.

Dutch presence in Hungary

KLM to Amsterdam four times a day

As of March 27th, 2016 KLM is increasing its capacity: a fourth flight will be introduced to the Dutch capital, Amsterdam. The flight will be operated with 132-seater B737 aircraft. The new service will depart from Amsterdam Schiphol at 08.40 in the morning and will return from Budapest at 11.20. The additional frequency offers shorter and more comfortable connections to numerous destinations.

“Taking into account the needs of Hungarian market our summer schedule will be enriched with an additional frequency, which means already 4 daily connections to the Dutch capital. With this step we open new doors to our customers to various destinations continuing to connect Hungary to the world. The new flight offer provides better and more frequent schedule to Amsterdam and guarantees shorter connecting possibilities to our long-haul flights from Schiphol” - commented Dror Harel, KLM Country Manager for Hungary. Tickets are available from 32,900 HUF (EUR 105) on the website www.klm.hu

Aegon ready to sell mortgage arm

Dutch insurance company Aegon is considering the sale of its Hungarian mortgage unit, Aegon Hitel, HVG reports, citing Reuters news. The company is to decide on the sale “pending an appropriate offer,” Aegon Hungary public relations director Edit Drevenka told the news agency. Aegon Hitel suspended mortgage lending in March 2014, citing falling demand, higher risks, an uncertain market environment and the need to avoid further losses. The insurance company, which has total assets of HUF 95bn (EUR 303mn), incurred a HUF 9bn (EUR 29mn) loss last year after losses of HUF 4.2bn (EUR 14mn) and HUF 4.6bn (EUR 15mn) in the previous two years.

NN Biztosító solidifies market position

Insurer NN Biztosító saw premium revenues in life insurance rise 10.7% to HUF 60bn (EUR 191mn) in the first nine months of the year, a strong performance given the market has shrunk 1.6% to HUF 329bn (EUR 1bn), Világgazdaság writes, citing data from the insurance association Mabisz. As a result, NN solidified its number one position, increasing its market share to 20.4% at the end of September, compared with 16.3% at the end of 2015.

Premium revenues of runner-up Magyar Posta Életbiztosító plunged 22% to HUF 41.9bn (EUR 134mn), which has led to a drop in its market share from 16.1% to 12.7%. Groupama had 9.4% of the market, up from 8.9%, as revenues rose by 2% to HUF 34bn (EUR 109mn). The market remains concentrated, with the top five companies accounting for 60% of the sector's revenues.

TMF Group Hungary celebrating 20 years excellence in Hungary

TMF Group Hungary celebrated its 20th anniversary in Hungary on December 2nd. Petrina Makakova Managing Director and Juraj Gerzeni EMEA Regional Director summed up the history, challenges and importance of the last 20 years of operation in Hungary. Péter Ákos Bod, former Governor of the Hungarian National Bank and Elzo Molenberg, Deputy Head of Mission at the Netherlands Embassy in Hungary talked about business growth in Hungary: what has happened in the country and Europe in the past 20 years and how it will influence the development of the group in the future.

Heineken Hungary signs commitment statement

Heineken Hungary and its suppliers signed a commitment statement in the Ministry of Agriculture, declaring to use 100% Hungarian barley for the production of its popular brand, Soproni as of January 2016. The commitment secures a sustainable sales channel for 100 barley producers over the next 20 years. „Heineken is devoted to use mainly local ingredients for its products worldwide in order to support local agriculture. It is essential for our company that in Hungary Heineken Hungary can contribute to the living of local farmers and can make life standards of their family higher.” – Joris Huijsmans, CEO of Heineken Hungary said.

R & D & I | Creative Industries

Olympic bid venues approved

Budapest city council approved a long list of proposed venues for the 2024 Olympic games to be included in the official bid presentation. The chief venue would be a new 60,000-seat stadium for track and field events, to be built on Csepel Island, that could later be scaled down to 15,000 seats. The existing Puskás Ferenc stadium would primarily host football matches. In addition to seven main venues in the city, many of them temporary, events such as rowing would be held outside of Budapest. The games would be brought to the heart of the city by staging archery contests on Kossuth tér, and setting the finish line for the marathon and other long-distance running events on Heroes Square.

Deputy mayor Balázs Szeneczey said some development projects will be implemented regardless of the success of the Olympic bid. The city council did not support a motion submitted by four opposition parties to have Budapest residents vote on whether to host the games. a referendum on the Olympics. Gergely Karácsony, mayor of the 14th District, said efforts to hold a local referendum on whether to host the games will continue, despite a Kúria ruling last week against proposed referendum questions.

The co-operation agreement on the city's bid to host the 2024 Olympics was signed between the government, the city of Budapest and the Hungarian Olympic Committee, commissioner Balázs Fürjes announced. As part of the agreement a committee of athletes will be formed to advise in preparing the bid. Its chairwoman will be former Olympic swimming champion Ágnes Kovács. The Olympic bid and related communication will be organised by Budapest 2024 Non-profit, formed by the Olympic Committee and the city of Budapest. Its sports director will be former Olympic modern pentathlon champion Attila Mizsér and its technical affairs director will be Budapest chief architect Sándor Finta.

Mayor István Tarlós said he is looking ahead to the Hungarian bid with “cautious optimism”. He noted that Hungary is the only country that has won more than 100 Olympic gold medals that has not yet hosted the Olympics. Fürjes said the submission of an Olympic bid is a victory in itself, as people around the world now mention Budapest alongside the three other bidders, Los Angeles, Rome and Paris.

Transport | Logistics

Mercedes starts EUR 15mn investment

Daimler is investing EUR 15mn to expand its logistics hall and improve the supply of spare parts to the production line at its Kecskemét factory, it was announced. Work is scheduled to begin in the first quarter for completion by summer. Although Mercedes began production at its Kecskemét factory only three years ago, three models are made there, production director Thomas Geiert pointed out. He said the investments will include installing robots in the factory to transport parts to production lines, and that recreation areas will be installed in the spaces that are newly made available. The company, with 4,000 employees, manufactures the B class, CLA coupé and CLA Shooting Brake models in Kecskemét, the latter two being exclusively manufactured in Hungary.

Mohács plans Danube port

The town of Mohács, in southern Hungary, is planning to build a commercial port on the Danube with a HUF 5bn (EUR 16mn) investment, mayor József Szekó announced. The local government will provide HUF 300mn (EUR 0.9mn) of its own financing to supplement the HUF 4.75bn (EUR 15mn) coming from the EU. Construction of the port with rail and road connections could begin early next year and be completed before the end of 2017.

Energy | Sustainable Energy

Energy-savings fund boosted

The Ministry of National Development increased the funding available for energy renovation projects in housing estates and housing co-operatives from HUF 10bn (EUR 32mn) to HUF 11.8bn (EUR 38mn), having approved 447 projects. Including funds from households, HUF 29bn (EUR 93mn) will be spent on enhancing energy efficiency in 14,000 households. After the investments, energy consumption and carbon dioxide emissions could be cut by 91.8 gigawatts and 20,291 tonnes, respectively, leading to annual savings for households of HUF 30,000-180,000 (EUR 96-574), the ministry said.

It is worth recalling that PMO leader János Lázár said in October that the government would use the funds granted under the Environment and Energy Efficiency Operational Programme solely for making public institutions more energy efficient, and that no funds would be extended to households. However, EU Commissioner for Regional Development Corina Cretu rebuffed Lázár on use of funds confirming that the EU allocated HUF 309bn (EUR 0.9bn) to Hungary for energy efficiency developments for 50,000 homes,

MEKH announces green energy purchase fees

Energy regulator MEKH has announced its new payment rates for energy generated by renewable resource and waste-to-energy facilities. These rates are higher than the actual market prices, in order to support power generation by renewable resources. Setting of the prices is linked to inflation, which in the first 11 months was negative, hence the tariffs paid to producers next year will be slightly lower than in 2015, the MEKH said.

Hungary spent HUF 50bn (EUR 160mn) on subsidies for renewable energy in the electricity sector in 2014, paying environmentally friendly producers HUF 33 (EUR 0.1) for each kilowatt hour of electricity, about HUF 20 (EUR 0.06) higher than prices on the electricity market, *Magyar Idők* writes.

Slovenia to link energy networks

Hungary and Slovenia agreed to connect their gas pipeline and electricity networks at the joint cabinet meeting in Brdo pri Kranju, Slovenia. Six agreements were signed, including a statement of intent on boosting the infrastructure between the two countries, a document on scientific and

educational co-operation and another on changing the state border because changes in the flow of the Lendava river.

Environment | Water Management

New waste management centre opens

A new regional waste treatment centre inaugurated in Tatabánya will handle waste for 79 communities in Komárom, Fejér and Pest counties. The entire project cost HUF 15bn (EUR 48mn), 92% of which came from the EU and 8% from the Hungarian state. In a second phase of the project, to be completed by the end of 2016, waste disposals will be built in Bicske, Komárom, Szentendre, Tarján and Tatabánya at a cost of HUF 5bn (EUR 16mn).

Economic indicators

Unemployment lower in Q4

The average number of unemployed was 281,000 during October-December 2015, down from 319,000 one year earlier, the Central Statistics Office announced. The average unemployment rate was 6.2% for the fourth quarter. There were 58,000 new jobs in the private sector, while the number of public works employees went up by 54,000. The number of employed also includes 6,000 Hungarians working abroad with Hungarian companies.

Two-thirds of job-seekers found employment within three months in 2015, recruitment agency Workmania.hu published in a survey. Some 36% of job-seekers found work within the first month. This was especially true in the 18-25 age group (48%) but less so for those over 45 (28%). According to some press reports, there is even a severe shortage of qualified workers in some professions and regions which could be an effective barrier of the FDI.

Commercial real estate thriving

The volume of commercial property investments in Hungary rose 61% to EUR 747mn in 2015, consultant CBRE announced. The market was driven by increased activity by domestic investment funds and US institutional investors, said Gábor Borbély, CBRE's head of research and investment. Momentum will continue in 2016 with more deals expected in the retail sector. CBRE said investments in the Central and Eastern European region reached a record EUR 9.6bn, up 20% from 2014. Poland attracted roughly 40% of all investments, and the Czech Republic 28%.

Economic and Monetary Policy

Hungary meets Euro adoption criteria

Hungary has effectively met the Maastricht criteria for EU member states to adopt the Euro, but there is no political will to switch to that currency, *Világgazdaság* reports. Hungary has kept its budget deficit below 3% of GDP for years and has met debt reduction rules. With inflation near zero, Hungary has also met the stipulation that the inflation rate cannot exceed that of the lowest in three member states plus 1.5 percentage points. Long-term interest rates have also been down to required levels.

Although Hungary has met the criteria, the country has not entered the ERM-2 exchange rate mechanism, a staging post two years prior to entry. The last time PM Viktor Orbán mentioned the topic was six months ago, *Világgazdaság* recalls, when he said a national currency can be an asset and several decades could pass before Hungary enters the Eurozone.

MNB keeps base rate at 1.35%

In line with market expectations, the MNB's monetary council kept the base rate at 1.35% at its meeting on January 26. Governor György Matolcsy announced in July 2015 that rate cutting had come to an end and that the MNB would follow a long-lasting policy of a low base rate. The council said it continuously monitors whether loose monetary conditions ensure that the inflation target can be reached sustainably. "If the monetary council considers it necessary, further monetary loosening will be implemented, primarily using existing unconventional tools," the statement said. In this

context, the council said it is closely watching external factors, especially steps taken by the European Central Bank.

Events

Lecture by Frits de Ruyter de Wildt and screening of film “the Admiral”

On February 12th, we will screen the movie “The Admiral”, a magnificent rendering of his life. The film will be screened in original, Dutch language with English subtitles and also simultaneous Dutch-Hungarian interpretation will be provided. The Admiral’s descendant, Frits de Ruyter de Wildt, will hold an introductory lecture about the innovative and international role De Ruyter played in the summit of the Dutch Golden Age. It is worth recalling that the legendary Admiral Michiel de Ruyter (1607-1676) has ever since been honoured in Hungary for liberating 26 Hungarian reformed pastors from the Spanish galleys in Napels in 1676.

Venue: *Europa Pont, Lővőház utca 35.*

Date: *February 12, 18.00*