



Hungary Economic News Letter February 2016

Embassy of the Kingdom of the Netherlands

Events

Danubiana Water Management conference and exhibition

Date: March 21

Venue: Danubiana Museum, Cunovo, Slovakia

The Dutch embassy in Budapest together with the Dutch embassies in Bratislava and Vienna will organize a regional conference on water management with a special focus on Dutch expertise in the field. The event is to be accompanied by a visual art exhibition on the relationship between water and man.

CSR Roadshow - are you interested?

In April 2016 (7th in Miskolc, 14th in Veszprém and 21st in Szekszárd) our Embassy 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 news

A cup of Holland

On 7th March a nice conversation was organised by our Embassy about the Netherlands at Europa Point. We discussed with the audience issues like the current Netherlands EU Presidency and urban cycling, but also Rembrandt and the famous Gouda cheese.

Ambassador on ATV

On 24th February, Ambassador [Scheltema](#) was invited by ATV for a short interview on Europe, migration, and the Dutch EU Presidency. The interview was made in the morning, hours before the latest referendum was announced. You can watch the video in Hungarian:

<http://www.atv.hu/videok/video-20160224-hogy-an-oldja-meg-europa-a-menekultkerdest>

Lecture of the President of Hungary at the residence

On 16th February, Ambassador Scheltema hosted an event at the residence with as a guest of honour the President of the Republic, H.E. Mr János Áder for European Ambassadors. The President delivered a thought-provoking lecture on climate change and sustainability issues in the aftermath of the Paris Climate Summit.

Elzo Molenberg at Europe Direct

On 16th February, the Deputy Head of Mission, Elzo Molenberg gave an overview of the Netherlands EU Presidency to representatives of regional offices of the Europe Direct network. As he pointed out, the Embassy intends to increase the visibility of the Presidency in the countryside as well. Last week's events, such as the opening of a Rembrandt etching exhibition in Balmazújváros and the commemoration of liberated protestant galley-slaves in Baja are excellent examples of this effort. Furthermore, the Embassy plans to organise a roadshow of technical assistance for local NGOs in April in Miskolc, Veszprém and Szekszárd together with Dutch companies present on the Hungarian market.

Ambassador Scheltema's keynote speech at the Ludovika Ambassador's Forum

On 28th January, in the context of the Ludovika Ambassador's Forum Ambassador Gajus Scheltema held a keynote speech in which he elaborated on "Good governance, Transparency and Accountability in the Netherlands" stressing these are not just ingredients of democracy for the sake of democracy; but are also essential from an economic point of view. The speech was followed by an interesting round table discussion, which involved also the members of the audience.

EU relations

HUF 87bn (EUR 278mn) in EU funds for rural areas

New tenders have been announced in recent days for HUF 87bn (EUR 278mn) of EU rural development funds, PMO agriculture and rural development state secretary Miklós Zsolt Kis said in Budapest on 2nd February. Of the total, HUF 66bn (EUR 211mn) is earmarked for horticulture: HUF 22bn (EUR 70mn) for developing greenhouses and foil houses, HUF 19bn (EUR 61mn) for establishing and watering plantations, HUF 22bn (EUR 70mn) for cold storage and mushroom cultivation, and HUF 3bn (EUR 10mn) for cultivation of medicinal herbs. In addition, SMEs may obtain HUF 14bn (EUR 45mn) for fixed capital investments and HUF 6.8bn (EUR 22mn) is available for the restoration of damaged forests.

EU funds for larger companies

The government has launched its investment scheme for large companies that are ineligible for EU funding, Economy Minister Mihály Varga announced, after opening a HUF 960mn (EUR 3mn) investment at a mill and bakery in Kiskunfélegyháza. At the end of last year, the government approved HUF 3bn (EUR 10mn) in subsidies to 14 companies, who will invest HUF 8.6bn (EUR 27mn) this year, creating 500 jobs, he said.

Some HUF 15bn (EUR 48mn) is set aside in this year's budget, to be distributed to companies by the middle of the year. Family-owned Kiskunfélegyházi Malom received HUF 480mn (1,5mn) in funding for its HUF 960mn (EUR 3mn) investment, which will increase payroll from 800 to 900. The company, with revenue of HUF 5.5bn (EUR 18mn) last year, operates 86 bakeries in five counties.

Hungarian regions among EU poorest

Hungary's per capita GDP was 68% of the EU average in 2014, based on purchasing power parity, Eurostat announced. Hungary was followed by Latvia at 64%, Croatia 59%, Romania 55% and Bulgaria at 47% of the EU average.

Two Hungarian regions are among the ten poorest regions of the EU, namely the north Great Plain region of eastern Hungary with 43% and Northern Hungary with 42%. The southern great plain region and southwest Hungary were also among the 20 poorest regions. At the other end of the scale, Budapest had the highest level of GDP per head in Hungary at 107% of the EU average, followed by West Transdanubia with 71%, and Central Transdanubia at 61%. Full report can be found at:

<http://ec.europa.eu/eurostat/documents/2995521/7192292/1-26022016-AP-EN.pdf/602b34e8-abba-439e-b555-4c3cb1dbbe6e>

PwC's latest CEO Survey shows growing optimism

CEOs in Hungary are more optimistic than their counterparts in other countries about the future, according to PwC's latest Hungarian CEO Survey. Globally, 82% of CEOs are confident about their own prospects for revenue growth, while in Hungary 84% of CEOs reported the same. This is the first time in the five-year history of the survey that CEOs in Hungary are slightly more optimistic than their global counterparts.

The lack of qualified professionals is of particular concern to CEOs and makes them value their existing employees more. Nearly three-quarters of CEOs (72%) reported that their company's position had improved in the past year. They believe this positive trend will continue, as 84% are confident that their company's revenue will grow in the next 12 months. Hungarian CEOs are also optimistic about both global (54%) and Hungarian economic growth (59%).

Base capital requirement postponed

The requirement that limited companies (Kft.s) must have base capital of at least HUF 3mn (EUR 9.600) will be delayed by one year. A bill passed last year raised the minimum capital for such companies from HUF 500,000 (EUR 1600) to HUF 3mn (EUR 9.600), with a deadline of March 15, 2016. There are several signs that companies are unable to increase their capital before the deadline, according to the official explanation. More than 129,000 companies had not increased their capital by the end of February.

Dutch presence in Hungary

Imre Sztanó takes charge at NN Biztosító

Sales director Imre Sztanó has been appointed to the post of CEO of insurance company NN Biztosító, replacing the outgoing Cornelia Coman from March 1, the two executives announced at a press event. Coman will take up a new position in Spain. She said there is a new market opportunity for insurance companies in providing annuities to people who withdraw from voluntary pension funds. NN's market share increased from 8.4% to 9.2% last year. The Insurance company plans to open to younger generations in the life-insurance segment and to exploit better the chances of digitalisation, the new CEO emphasized .

PG purchase of Prímagáz approved

The competition authority GVH has approved the sale of 100% of LPG cylinder distributor Prímagáz to PG Investment. The purchasing company, owned by György Nagy, signed the sales contract with Prímagáz's Dutch owner in December. The seller is SHV Energy and its subsidiary Pam Gas. Nagy, one of the founders of the Wallis group, has a 12% stake in gas trading company MET. Prímagáz realised a nearly HUF 600mn (EUR 1,9mn) pre-tax profit last year on over HUF 22bn (EUR 70mn) of revenues. The GVH said there are no links between the two companies that would negatively affect the market.

R & D & I | Creative Industries

Gov't plans new conference centre

Construction of a state-financed conference centre could begin in 2017, Development Ministry undersecretary Ádám Ruzsinkó announced at a conference on 10th February.

A recent report by consultant KPMG concluded that Hungary's tourism sector needs to shift its focus to lure conference and business tourists, a demographic with greater purchasing power. Ruzsinkó said the cabinet will discuss the conference centre idea in the spring, and could approve plans by the end of the year, with a completion date sometime in 2018. István Kovács, head of the Hungarian Hoteliers and Restaurants Association, said tighter border controls due to mass migration constitute a serious risk to the sector. Room occupancies by foreigners in Budapest have dropped in each of the last three months of 2015, unlike in other major cities in the region, he added.

Think Budapest forum focuses on innovation in V4

"In this current period of challenges, only innovative answers are good answers and only innovative nations can be successful", said Peter Szijjartó, Minister of Foreign Affairs and Trade said at the opening of the

“think.BDPST” regional innovation forum organised by the Antall József Knowledge Centre in cooperation with the Ministry of Foreign Affairs and Trade of Hungary and the International Visegrad Fund. By organising this conference on innovative technologies, Hungary has set as its goal to bring together the V4’s highest level political, economic and educational leaders on a single common platform to enable the region to overcome the obstacles generated by the new world order and face the challenges ahead as successfully as possible, the Foreign Minister stated, adding that the countries of the V4 would be weaker individually and less powerful without strong solidarity. President of the National Research, Development and Innovation Office [József Pálinkás](#) pointed out that the total population of the V4 is on a par with that of France, but its economic power and strength in research and development is not. It should be noted that the Hungarian government intends to spend a total amount of HUF 700bn(EUR 2.2bn) on innovation in the coming years. At the forum, representatives of business life, the administration and science will discuss the most important take-off points of the Visegrád region’s development policy, economic development, research financing and opportunities for cooperation on innovation policy.

Transport | Logistics

HungaroControl makes online airspace reservation system operational

Since January, 2016 a new online system, LARA (Local and Sub-Regional Airspace Management Support System) supports airspace management activities at HungaroControl. The software package is meant to simplify and accelerate the process of airspace reservation requests, approvals and usage, as well as assisting airspace management on a European level. By introducing the LARA software (provided by EUROCONTROL at no cost) at the beginning of 2016, HungaroControl has fulfilled its obligation nearly a year ahead of the deadline.

High demand for truck driver training

Some 29,000 people have registered for government-sponsored training for truck drivers, *Népszabadság* reports. The government set aside HUF 5bn (EUR 16mn) to cover the costs of training 6,000 new drivers, as that is the size of the shortage in the sector, according to freight forwarders. However, 65% of the applicants do not meet the criteria, the Economy Ministry said. Applicants must be above age 21 and have an elementary school degree, a “B” category driving license and two years of driving experience. Truck drivers can earn a net HUF 500,000 (EUR 1,600) a month, the newspaper adds.

New flight routes from Budapest announced

Wizz Air will operate flights to Sofia three times a week from November 1, the low-cost airline announced. Ryanair will establish daily connections between Berlin and Budapest from October 31 and to Nuremberg from November 1, the low-cost airline announced.

Moreover, a government decree confirming its plans to subsidise flights linking Budapest to five destinations in the Balkans was published last month in the official gazette *Magyar Közlöny*. The decree instructs the Development Ministry to publish a tender in the EU gazette for operating flights to Podgorica, Pristina, Skopje, Tirana and Sofia. There have been no direct flights from Budapest to these destinations previously served by Malév since the state airline went bankrupt in 2012. Economy Minister [Mihály Varga](#) is to provide financial backing for the flights for the years 2017-20. As to new potential destinations from Budapest, on his recent visit to Seoul, Economy Minister Mihály Varga promoted the idea of direct flights between Budapest and Seoul. It is worth recalling that South Korea and Hungary reached an air agreement last May in harmony with EU regulations which made it possible to operate direct passenger and cargo flights.

Please note that the Budapest-Eindhoven route of Wizzair will be substituted by a Budapest-Maastricht flights between May 30 and June 15, due to the construction works on the new piste.

Energy | Sustainable Energy

Russia extends gas shipment deal

Long-term contracts on transporting Russian gas to Hungary have been extended to the end of 2019, was announced during PM [Viktor Orbán](#)’s visit to Moscow. The existing contract, signed when President Putin visited Budapest exactly one year ago, was due to expire in July, although Hungary

would have been able to draw on any unused quantity until the end of 2018. The price formula will not change, which is particularly unfavourable for Hungary, as gas is less costly on the market than the price Hungary pays to Russia, *Népszabadság* writes. In return, Hungary will not have to pay for unused gas, which was a condition in the original treaty. Foreign Affairs and Trade Minister Péter Szijjártó told *Magyar Hírlap* that a political decision was reached on this a year ago and now officials from Gazprom and MOL have agreed on the financial frameworks.

Hypermarkets must install EV chargers

Stores with retail space of more than 1,500m² will be obliged to install electric vehicle charging stations in their parking lots from January 1, 2019, according to a decree issued in the official gazette *Magyar Közlöny*. Mall operators, hypermarkets and super-markets will have to install two chargers for every 100 parking spaces.

An announcement to that effect appeared in the official gazette *Magyar Közlöny*. Based on a HUF 5-10mn cost for installing one charger, retail units can brace for an investment in the hundreds of millions of forints range. Consultants PwC expect the number of hybrids and electric cars in Hungary to rise to 140,000 in ten years. The government's target is to have such vehicles make up 30% of the total fleet by 2030, some 900,000 cars.

Environment | Water Management

Waste management to be centralised

A state company will co-ordinate all house-hold waste collection in Hungary from April 1, Development Ministry state secretary Zsolt Szabó announced. Waste management co-ordinator and asset manager NHKV, formed with start-up capital of HUF 4.8bn (EUR 15mn), will issue all bills to households and collect payments. These will then be transferred to the actual waste collection companies, which have contracted with local governments. At the moment, 171 waste collectors operate in Hungary but only 140 have a proper licence, so the quality of service varies considerably, Szabó said. The whole waste collection sector will be reformed by December 2017 to meet stricter EU norms, Szabó added.

Danube dam agreement close

Continuous talks between Hungary and Slovakia on the disputed Danube dam have produced the outlines of an agreement, *Népszabadság* reports. The newspaper says the Slovak government would like to resolve key points before the March 5 parliamentary elections there.

Hungary will give up its key demands, including a greater flow of water in the Hungarian side branches of the Danube, in order to be eligible for EU subsidies to develop river transport routes, according to *Népszabadság*. If no more water is directed to the Hungarian branches of the river then the quality of water reserves under the surface will be destroyed, the newspaper adds.

Áder asked to join UN water group

President János Áder has accepted a request from the UN secretary general and the president of the World Bank to join a water management advisory body, it was announced on 14th February. The group, formed to promote sustainable water management around the world and a successful adjustment to climate change, will hold its inaugural meeting in New York. Áder will host a global water meeting in Budapest in late November or early December, he announced on M1 channel on the same day.

Economic indicators

IMF sees improvement in Hungary

Hungary's financial vulnerability has shrunk significantly, the IMF has reported following its latest annual supervision. Although the level of state debt and the Hungary's financing requirement remain high, the Hungarian economy is performing very well, the IMF said. The report said that "*an abrupt sharp deterioration in global or emerging market risk perception could lead to capital outflows*". Due to increased tax revenues and a better economic performance, the budget deficit of Hungary in 2015 was about 2% of GDP, below the 2.4% target, the IMF estimated. In order to cut the state debt to 60% of GDP in the medium term, an austerity measure of 0.3% of GDP would be necessary, the IMF

recommended. The IMF therefore welcomes planned cuts in public administration. Much work remains to be done to reach a target of a zero budget deficit for 2017, Economy Minister Mihály Varga commented.

FDI reached EUR 1.4bn in 2015

State investment promotion agency HIPA supported 67 projects that together brought EUR 1.4bn of foreign investment to Hungary last year, Foreign Affairs and Trade Minister Péter Szijjártó announced. These projects have led to the creation of 13,000 jobs, 21% more than in 2014. German investors created 4,000 jobs with 14 projects, while 11 developments by US investors led to the creation of 2,400 jobs. In a breakdown of industries, most projects, 17, were launched in the car manufacturing, followed by 12 in the shared services sector, and seven info-communication technology investments.

Trade surplus at record high in 2015

Hungary's trade surplus and exports both rose to record high levels in 2015, Foreign Affairs and Trade Minister Péter Szijjártó announced. The data show a trade surplus of EUR 8.1bn, up from EUR 6.3bn in 2014. Exports expanded by 7.4% to EUR 90.7bn, while imports grew 5.6% to EUR 82.6bn. Import costs were suppressed in large part by the collapse in the price of oil. While the export figures are impressive, it should be noted that the government's Eastern Opening policy has failed to substantially increase Hungarian exports, whereas the countries in question are exporting more to the EU via Hungary, economic weekly *HVG* reports. The West remains the main destination of Hungarian exports and demand is rising, but countries to the East do not appear to be taking in more Hungarian exports. Russia, Kazakhstan, Azerbaijan, Saudi Arabia, Turkey and China account for 5-7% of Hungarian exports and the Eastern Opening campaign has not changed that, *Népszava* wrote. The weight of the East in Hungarian exports is mostly determined by whether Hungary exports more or fewer cars to Germany.

Economic and Monetary Policy

New re-industrialisation strategy, the Irinyi Plan announced

Hungary's Economy Minister Mihály Varga presented the government's new industrial strategy. The Irinyi Plan - the industrial strategy named after János Irinyi, aims to turn Hungary one of the European Union's most industrialised states by 2020. In order to modernise the structure of industrial production and move it towards production of larger added value, Hungary needs to switch over to an innovation-driven economy. Industry must rely on knowledge, research and development, higher education and professional education. One of the key target figure of this strategy is to increase the share of industry in gross domestic product (GDP) from the current 23.5% to 30% by 2020. The seven areas that would be given priority in terms of development are the following: vehicle manufacturing, specialised machinery and vehicle manufacturing, healthcare industry and tourism; food industry, green economy, infocommunications sector and defense industry.

MNB's Nagy expects lower base rate

At an informal press briefing, deputy governor Márton Nagy said the MNB could take unconventional steps in March and will lower the base rate later in the year, albeit not in March or April. Any rate cuts must be significant in volume and quantity, as cutting rates in small steps does not make sense, he argued. Before taking any measures, the MNB will wait for the outcome of the European Central Bank's rate decision in March, as well as the MNB's own quarterly inflation report and the refinancing of maturing debt by the state debt manager ÁKK, Nagy affirmed. External perceptions of Hungary have improved significantly in a short time, he said, adding that this has led to a decline in the country's vulnerability and risk premia. This has also led to falling yields and a flattening out of the yield curve at the longer end. A possible rate cut may come in June at the earliest, if Hungary's debt is upgraded, fuel prices remain low and the international environment is stable, financial analysts believe.