



Koninkrijk der Nederlanden



# Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

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## Embassy news

### Annual General Members' Meeting of Dutcham and New Year's Reception

The AGM of Dutcham and the reception for the Dutch community living in Hungary took place on January 14<sup>th</sup>, at the Residence of the Dutch Ambassador. The Board of Directors held a presentation summarising the Chamber's activities in 2014 and plans for 2015. During the meeting three new members were elected to join the Board of Directors: Rick Enders (General Manager, Marriott International), Dror Harel (Country Manager, Air France KLM) and Gergely Szűcs (Sales Director, AkzoNobel). In the Cash Committee Ferencz Farkas, who will leave for New York, was replaced by László Pálmai, personal member. At the end of the AGMM all members were invited to an informal reception hosted by Ambassador Gajus Scheltema, which was a great opportunity to meet representatives of the Dutch Community.

### EKAER seminar-Are you prepared?

On January 29<sup>th</sup>, Dutcham and the Netherlands Embassy organised a much needed business seminar about the newly introduced *EKAER-Electronic Trace and Transport Control System* with the professional input of Szecskay Law Office. The speakers, Dr. Gáspár Bagaméry and Dr. Róbert Dezső Tax Lawyers, elaborated on the legal background, the purpose of the law, the transactions requiring EKAER number, the exemptions, the sanctions and the role and risks of the guarantee. The interactive seminar was very much welcomed by the participants as an opportunity to ask practical questions which were answered by the experts.

### Speed dating session at the Ambassador's conference

During the ambassador's annual conference in the Netherlands on January 27<sup>th</sup>, at a speed dating session Dutch SMEs had the opportunity to meet the ambassadors aiming to enhance export opportunities to the countries they are stationed. Ambassador Gajus Scheltema informed the representatives of the following companies about the Hungarian market possibilities: Birdie Printing Consultancy BV (consultancy in document printing hardware and software), Agrilight BV (producer of LED lighting for barns), Track Line BV (road markings service provider), Tri-tennis Nederland/Spaendock Sport (distributor of tennis walls), Cannock Chase BV (debt management service provider for local governments) and Prepaid Factory BV (service for prepaid products).

### Company visit to DSM Hungary Ltd

On February 5<sup>th</sup>, Ambassador Gajus Scheltema and Trade Promotion officer Éva Szabó visited the Hungarian subsidiary of DSM, located in Újhartyán. During the company visit Zsolt Csavajda, Managing Director, told the Embassy representatives that DSM Hungary

has celebrated its 10th years anniversary in 2012 and has reached a milestone last year: 3000 days without any SHE incident (Safety, Health and Environment accident). He also provided further information on this year's plans concerning the relocation of the dispensary and extending the warehouse. Below you can read more information about the company.

### *Dutch presence in Hungary*

#### **DSM Nutritional Products**

Royal DSM NV is a Dutch-based multinational life sciences and materials sciences company. DSM was established in 1902 as a state-owned coal mining company with headquarters in Heerlen. Through the years the company diversified its portfolio into three clusters: Nutrition, Performance Materials and Polymer Intermediates. DSM Nutritional Products is the world's largest supplier of nutritional ingredients, such as vitamins, carotenoids and other fine chemicals to the feed, food, pharmaceutical and personal care industries.

Roche Vitamins Hungary Kft was established in 2001 as a greenfield investment and was acquired by DSM in 2003. With a fully automated production line, the facility in Újhartyán produces feed premixes for farm and companion animals and supplies the Hungarian, Czech and Slovak markets. DSM Hungary has 39 employees and an output capacity of 12.000 tons/shift.

### *Transport/Logistics*

#### **Budapest Airport's passenger traffic record high**

Budapest Airport consigned all previous passenger records to the history books in 2014. The capital airport of Hungary served 9,155,961 passengers last year, which is a solid 7.5 % increase against 2013. A series of new airlines started operating to new destinations from Budapest, while existing airlines either increased capacity or frequency to their earlier destinations. The dynamic growth of passengers was spread evenly throughout the year, from which seven months generated all-time records in the history of Budapest Airport (February, March, April, May, June, November and December). The share of non-Schengen traffic increased to a healthy 36 %, which reduces the dependence of Budapest Airport on intra-European traffic, BudAir said in a statement. The average load factor of airlines also rose to a record 79 %. Early forecasts by Budapest Airport's aviation experts indicate a further traffic increase for 2015, to surpass 9.6 million passengers. Jost Lammers, the CEO of Budapest Airport reminded that Budapest Airport will build a new maintenance hangar for Wizz Air in Budapest, and will modernize its instrument landing system (ILS). With constantly increasing passenger numbers, Budapest Airport also managed to further improve the travel experience for passengers - a fact reflected in record high ratings given by travellers in the anonymous satisfaction surveys (ASQ) conducted on behalf of ACI (Airports Council International).

#### **New road constructions planned**

The Hungarian government published the list of priority road development projects for the 2014-2022 programming period. Under the IKOP-Intelligent Transport Development Operational Programme, 20% of the funds will be allocated to the better connectivity of TEN-T public roads. According to a government decree published in the Official Gazette (Magyar Közlöny), the central state budget will earmark HUF 750bn (EUR 2.375bn) for the development of the country's road network by 2020. Under the resolution the cabinet will build "high-standard road links" to Sopron (M85), Szolnok and Békéscsaba, and upgrade road connections between Csorna and the Austrian border, between Albertirsa (route 405) and Abony (M4), between Nagykőrös, Kecskemét and Békéscsaba (M44), between Bátorfőnyeregyesi (route 23 and 25) and Ózd, between Esztergom and the M1, as well as route 471 in Hajdú-Bihar county, and route 812 bypassing Győr.

#### **HungaroControl first in Europe to abolish air route restrictions**

HungaroControl became the first air traffic controller in Europe to abolish the entire fixed flight route network, enabling aircraft to use airspace freely, without any restrictions. The new air traffic control concept dubbed Hungarian Free Route (Hufra) in effect from 5 February, aims to enable aircraft to take the shortest possible route above Hungary between entrance and exit points. The shorter flights will save airlines some USD 3mn in fuel and lead to a reduction of carbon dioxide emissions of more than 16 million kilogrammes, HungaroControl said. Hufra is expected to optimise the capacities of the air traffic controllers, reducing their workload, indirectly leading to increased aviation safety.

### **Agreement signed on Budapest-Belgrade railway upgrade**

Hungary, Serbia and China signed an agreement in Belgrade on preparations for the renovation of the railway line between Budapest and Belgrade, to be financed by China. Work on a feasibility study and a financing model will begin this year. The modernisation will begin before the end of the year, Foreign Affairs and Trade Minister Péter Szijjártó, Serb Infrastructure Minister Zorana Mihajlovic and Chinese Development and Reform Commission vice-president Xu Xianping told a press briefing. An agreement will be drafted in the coming months on the terms and conditions of a loan by which China will finance 85% of the project. A two-track electrified line will be built between Budapest and Belgrade along 350km of railway lines – 166km in Hungary and 184km in Serbia. The running time between the two cities could be cut from the present eight hours to two hours and 40 minutes by trains speeding along at 200km per hour. The three parties first discussed the nearly USD 3bn project at the Bucharest Central-East Europe-China summit in 2013. The plan is part of a wider Chinese interest to connect the harbor of Piraeus (Greece), in which China has invested significantly, with mainland Europe.

### *Energy/Sustainable energy*

#### **New exploitation concessions to come**

The National Development Ministry will soon invite bids for licences to explore for oil, gas and geo-thermal energy in Hungary, legal advisory Conybeare Solicitors wrote on [naturalgaseu-rope.com](http://naturalgaseu-rope.com). The tender to be announced in 2015 will have the same conditions as the one announced in 2014, Conybeare adds.

#### **Government imposes tax on solar cells**

The government has introduced a tax on solar cells, of HUF 114 (EUR 0.3) per kilogram, effective as off January 1<sup>st</sup>, and raised the VAT on solar cells to the general level of 27%. The new regulation was justified by the adoption of the relevant EC legislation on recycling. Note that the solar energy output in relation to total energy output is lower in Hungary than in any other EU country. President János Áder called on Parliament to scrap the new tax on solar cells, while admitting that he is also *partly at fault* in the matter. Future generations ombudsman Marcell Szabó announced that he will initiate the revocation of the new tax. Solar cells and the main components of wind power plants contribute greatly to environmental protection, Szabó argued. Hungary's energy strategy expresses support for these sources of power, he added.

#### **Ministry extends energy saving tender**

The National Development Ministry has announced a HUF 10bn (EUR 31mn) tender for residential buildings with no more than 60 homes for insulation, heating system renovations and investments in green technology. Individual homeowners may apply for aid worth HUF 350,000-650,000 (EUR 1090-2030) half of which is non-refundable. The goal is to improve the energy ratings of homes by at least two ranks, said Zsolt Szabó, state secretary for climate change, as more than two-thirds of Hungary's 4.3 million homes lack adequate energy efficiency. For more info on the conditions read:

<http://www.kormany.hu/download/d/a6/30000/P%C3%A1ly%C3%A1zati%20Felt%C3%A9telrendszer.pdf>

### **Szijjártó promotes water technology**

Based on its knowledge and experience, Hungary can become the leading country of the global water industry, Foreign Affairs and Trade Minister Péter Szijjártó said at the opening ceremony of a water technology research centre in Nagykanizsa. Observing that competition is fierce in all segments of the economy, he said Hungary can best compete if it concentrates on those sectors in which it can obtain an advantage. The water industry is such an area, and expanding the related research capacity significantly contributes to Hungary's export capacity, Szijjártó underlined.

### **Meet the Dutch Water Sector**

Water does not stop at borders. All over the world Dutch water experts work together with local organizations to help solve global water challenges. Through the international website [www.dutchwatersector.com](http://www.dutchwatersector.com) the Dutch players of the top sector water keep international water experts informed with daily news, events, projects and innovations. The site has more than 10.000 visits per month, from more than 200 different countries.

The Dutch embassies and consulates play a vital role in connecting local demand with Dutch water expertise. In this one-time Newsletter Special we would like to give you an update of upcoming activities and publications of the Dutch water sector that might be of interest for you. For example the Amsterdam International Water Week coming up this November. (Deadline = February 14<sup>th</sup>, doesn't make sense). Or the new country pages on the website and the Delta Approach Campaign. Be inspired and let us know if we can assist in finding solutions for water related challenges. Send an e-mail to [info@dutchwatersector.com](mailto:info@dutchwatersector.com)

### *EU relations*

### **Hungary makes most of EU funds**

Hungary closed a record year in terms of paying out EU funds, which came to HUF 1.845 trillion in 2014 (EUR 6 bn), Development Ministry state secretary Nándor Csepreghy said. Of the EU funds available for the 2007-13 period, Hungary has allocated HUF 6.865trillion (EUR 22 bn), which may mean that Hungary is the first state with a 100% pay-out rate, he added. Fears that Hungary will leave huge amounts untouched did not materialise, Csepreghy commented. However, several cases of possible irregularities of EU payments were reported recently in the Hungarian press which may reduce the real pay-out rate for Hungary.

### **Hungary also complains about new German minimum wage rules**

The European Commission indirectly confirmed on January 22<sup>nd</sup> that it started a dialogue with the Germany government over the minimum wage Germany plans to apply on all truck drivers of other member states that either deliver goods to or only pass through the country. According to well-informed sources, the EU executive will pay heed to complaints by the Czech Republic, Hungary and Poland and haulage companies and scrutinise a new German legislation over the controversial application of Germany's minimum wage. The German government has decided that the minimum wage of EUR 8.50 an hour will be applied to all truck drivers who are involved in transit trade through Germany. Foreign employers could be fined more than EUR 30,000 if they fail to pay this wage.

### *Macroeconomy*

### **HIPA hails EUR 1.6bn of investments**

State investment promotion agency HIPA supported 60 projects that together brought EUR 1.6bn of foreign investment to Hungary last year, president Róbert Ásik announced at a press conference. These investments exceeded the 2013 figure by 35%, while the number of jobs created was up 50% at nearly 11,000. Of the 60 projects, 32 were

expansions and 28 were new investments. American investments created 2,729 jobs, Indian ones 1,575 and German ones 1,431.

Evaluating the year 2014, state secretary László Szabó said that all three pillars of the export promotion system – HIPA, Eximbank and the network of the national trading houses – had a successful year. While HIPA completed 60 investment projects, Eximbank, a financial institution supporting the export of small and medium-sized enterprises, granted loans worth HUF 327bn (EUR 1bn). The national trading houses, of which 25 have already started to operate and 50 will have been operating by the end of the year all over the world, are currently managing more than 400 pending transactions. The campaign "Let's export!" (Exportra fel!) continues, whereby small and medium-sized enterprises are encouraged to enter foreign markets. Under the programme, Eximbank will open further branches in five other towns in the countryside in addition to those in Győr, Nagykanizsa, Miskolc and Kecskemét. According to the calculations of Eximbank, the activities of the credit institution have increased Hungary's net exports by HUF 252bn (EUR 813mn), and generated tax revenue worth HUF 74bn (EUR 239mn).

#### *Economic policy*

##### **State plans utility metering company**

The government has ordered state development bank MFB to set up an independent public utility information centre (KAF) to harmonise and make transparent metering and billing for the use of the pipelines and infrastructure in the utility sector. KAF, as a state player, will provide reliable technology and consumption data, replacing the less transparent and non-harmonised information provided by different system operators, according to the government announcement. KAF is to be founded by February 28<sup>th</sup> with HUF 100mn (EUR 323,000) of registered capital and capital reserves of HUF 2.9bn (EUR 9mn) under the decree issued on January 21<sup>st</sup>. It will start its operations on the natural gas market on the basis of Főgáz operations, but in a way that it can offer its services all over the country. The cabinet aims to extend national utility services to electricity in 2016 at the latest.

#### *Budgetary and monetary policy*

##### **2014 budget deficit below target**

The annual budget deficit for 2014 was HUF 825.7bn (EUR 2.6bn), some HUF 325.8bn (EUR 1bn) less than forecast, according to preliminary figures released by the Economy Ministry. As a result, the deficit was only 72% of the full-year projections and remained below the target of 2.9% of GDP.

As to the first month of 2015, cashflow-based general government deficit, (i.e. excluding local councils) came to HUF 53.8bn in January. The deficit was 6.1% of the full-year target of HUF 877.4bn (EUR 2.8bn), according to MTI estimations. The Economic Ministry explained the lower deficit this year as a result of a higher tax revenue – from VAT, excise tax, the financial transaction duty, personal income tax, social contributions and duties – as well as resulting from a "favourable interest balance". The ministry noted that the deficit is front-loaded, as usual, with expenditures exceeding revenue in the first half of the year. Hungary's general government deficit is expected to stay under the European Union's 3% threshold even in the event that the economy grows at an annual rate of only 2%, lower than forecast, state secretary Péter Benő Banai said in an interview on public radio.

##### **MNB on QE of ECB**

Speaking on possible extension of the Funding for Growth Scheme (FGS) on the public radio, president of the National Bank of Hungary György Matolcsy said the European Central Bank's new bond-buying scheme announced last week could have positive indirect effects on Hungary, central Europe's most indebted nation, by reducing bond

yields and boosting the stock market. *"We will propose ... that 1 trillion forints worth of loans should be provided with new tools of the FGS to small and medium-sized companies this year and that big businesses should also be part of this programme,"* Matolcsy said in an interview with public radio. At the Monetary Council's monthly policy meeting the body decided to hold its record-low 2.1% key rate.

### *Business environment*

#### **New tax allowances and loss carry-over rules for companies**

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. Also as of January 1<sup>st</sup>, the use of accrued losses against current profits became stricter, as the maximum time over which losses can be carried is now five years, while 2014 losses can be used until December 31<sup>st</sup>, 2025, *Napi Gazdaság* points out.

#### **M&A market driven by political considerations**

Despite high hopes for the mergers and acquisitions market, 2014 was a disappointing year, according to the *"Emerging Europe: M&A Report"*. *"The number of deals did increase somewhat in 2014; however, deal value decreased significantly,"* the report said. As in 2012 and 2013, the Hungarian State and state-owned entities (MNV Zrt., the Hungarian National Asset Management Company; NISZ Zrt., the National Information Communication Company; and MNB, the National Bank of Hungary) were the most active players on Hungary's M&A market, completing by far the largest deals of the year, the report notes. The two biggest acquisitions cited by the report were the purchase of two banks, FHB and MKB by state entities. The biggest private deal cited was a cash infusion of EUR 45.6mn into Prezi, one of Hungary's most successful tech startups. *"Other state acquisitions involved mainly utilities, as well as manufacturers in 'strategic industries', such as the acquisition of Bombardier Transportation MÁV Hungary Kft., related to the railway industry. However, these acquisitions were not driven by market opportunities, but by economic and political considerations"* the report says.

#### **Tax owed by idle firms at HUF 2.5trn**

The tax authority NAV ordered compulsory execution of rulings against 157,835 insolvent companies last year, an increase of 4.2% from 2013, company data website *feketelista.hu* reported. The tax backlog of these firms is HUF 1.1 trillion (EUR 3.5bn), but 40% of the amount consists of penalty or default interest. So far the NAV has managed to extract HUF 347bn (EUR 1.1bn) in unpaid taxes from these companies last year. The total number of firms with tax debt undergoing liquidation, bankruptcy or winding-up procedures has risen to 361,956. The NAV is trying to collect a huge HUF 2.5 trillion of unpaid taxes from companies no longer operating, *feketelista.hu* notes.

#### **Electronic liquidation system start functioning**

Sales of the assets of companies under mandatory liquidation are up almost 20% a month after the introduction of an electronic sales system, government commissioner Zoltán Kunfalvi said at a conference. The electronic sales system, known by its Hungarian acronym "eer", was introduced on January 1 as part of the government's anti-corruption strategy. The system makes liquidators' work more transparent and easier to check, Kunfalvi said. Anybody can register to use the online system for a fee of HUF 7,000. Liquidators who use the system pay a monthly base fee of HUF 5,000 and a scaled bidding fee of between HUF 1,000 and HUF 20,000. A 1% commission is also charged on sales.

**BUDAPEST BOAT SHOW: International Boat Exhibition + CARAVAN SALON: International Camping and Caravan Exhibition + FEHOVA: Fishing, Hunting & Arms International Exhibition**

Date: 12-15 February 2015

More information: <http://hungexpo.hu/en/news/from-12-15-february-2015-fehova-again>

**Business Lunch with the MVÜK /Business Circuit of Hungarian Entrepreneurs'**

Organized by The Netherlands-Hungarian Chamber of Commerce

Date: 18 February 2015

More information: <http://dutcham.hu/post/events/386-business-lunch-blind-date-with-mvuk-18-02-2015>

**TRAVEL: International Tourism Exhibition**

Date: 26 February-01 March

More information: <http://hungexpo.hu/en>

**RENEXPO CENTRAL EUROPE: International Fair and Conference on Renewable Energies and Energy-Efficiency**

Date: 11-12 March 2015

More information: <http://www.eventseye.com/fairs/f-renexpo-central-europe-11621-1.html>

**PAN-EUROPEAN HIGH SECURITY PRINTING CONFERENCE:** Production, protection and issue of currency, fiduciary documents, ID cards, e-passports, visas, vehicle documents and licences

Date: 23-25 March 2015

More information: <http://www.eventseye.com/fairs/f-pan-european-high-security-printing-conference-7460-1.html>