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Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

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Embassy events

Visit to Leaseplan Hungary

Ambassador Gajus Scheltema, together with DHOM Bert van der Lingen and Éva Szabó have visited Leaseplan Hungary, the market leader fleet management company. The Hungarian subsidiary has celebrated its 20th anniversary in May. Congratulations and many thanks for the company tour to Roelof Hansman, Managing Director and Tímea Pesti, Commercial Director.

Meeting with CEO and CFO Unilever Hungary

On June 4th, Ambassador Scheltema and Bert van der Lingen met with András Gyenes CEO and Kálmán Molnár CFO Unilever Hungary where they spoke about the position of the company and its future plans.

Closure of the Agricultural Department

After 22 years the Agricultural Department of the Embassy will close at September 1st , 2014. The current Agricultural Counsellor, Martijn Homan will move to Warsaw, Poland, but stays responsible for agricultural affairs in Hungary. The other colleagues of the Agricultural Department, László Iványi and Daphne Dumon will leave the Embassy. At the website of the Embassy you can read an article about the closure of the Agricultural Department.

Briefing Conference, 22-26 June in The Hague

Éva Szabó participated in the Briefing Conference, between 22-26 June in the Hague, organised by the Netherlands Entreprise Agency (RVO) for economic and agriculture officers of Embassies, Consulate Generals and NBSO's from all over the world. She was briefed about the newest developments within the organisation, visited Port of Rotterdam and met with the company representatives of a.o. Veraart Consultants, Export Support en Archivolt Architecten BV. More detailed information will soon be available on the renewed webpage of the embassy.

Appointment of Bert van der Lingen

Bert van der Lingen was appointed Ambassador in Lithuania by the Council of Ministers upon the proposal of Minister of Foreign Affairs Frans Timmermans. He will be stationed in Vilnius. The Embassy of the Netherlands in Vilnius is cooperating closely with the Embassies in Riga (Latvia) and Tallinn (Estonia) and they form together the diplomatic mission Balticum, with the Ambassador of Riga being the Head of Mission. Mr. Van der Lingen is currently Deputy Head of Mission at the Embassy in Budapest, Hungary. Before, he held the positions i.a. of Head of Department Western-Europe at the MFA, Head of Economic Department at the Embassy in Warsaw, Poland and Deputy Head of Mission at the Embassies in Sofia, Bulgaria, and Dublin, Ireland. His successor will be Elzo Molenberg who had already served once in Budapest between 2007 and 2011, at that time as the head of the Economic Department of the Embassy. Since 2011 he has been working in the European Integration Department of the MFA. Earlier he also gained working experience at the European Commission, the Dutch Ministry of Economic Affairs and regional Chambers of Commerce in the Netherlands.

Company visit and meeting the mayor, dep. mayor and Dutch SME`s in Eger

On July 10th, the Ambassador and Éva Szabó were invited for a company visit and machinery show at Tobroco Ltd. in Eger. The owner, Toine Brock has presented the mother company in Oisterwijk, which is designing and manufacturing Giant wheel loaders and implements for the agricultural and construction industry. The subsidiary is Eger has now 48 employees and big plans for further investments as we learnt from Nico van Rijn, Director and Szabolcs Csáki, Production Manager.

In the afternoon, ambassador, Éva and Tamás Sellyey, General manager of Philips Lighting Hungary met with Mayor László Habis and Deputy Mayor István Sós, in charge of city development. Before the opening of the Bikavér Festival in Érsekkert, the Ambassador had a guided city walk in Eger with Attila Rátkai, Chief Architect.

The next day, a meeting with 9 Managing Directors of Dutch SME's of the North-East region of Hungary took place where the representatives of Alion Kft, Egreal Kft, Est Hungary Kft, JH Kloosterhuis Kft, Tobroco BV and Hungary Kft, SRS Hungary Kft, and Western Horsetables Kft were present.

Meetings with CEO Royal FrieslandCampina

On July 9th, Ambassador Gajus Scheltema and Agricultural Counsellor Martijn Homan attended the opening of the extension of the production facility of Friesland Campina Hungary Zrt by State Secretary Robert Zsigó in Mateszalka. More information on the opening you can find below.

On July 11th, the Ambassador and the Agricultural Counsellor met the CEO of Royal FrieslandCampina, Kees C. 't Hart in Budapest where they spoke about the good results achieved and the future plans of the company.

Dutch presence in Hungary

Leaseplan Hungary celebrating its 20th anniversary

LeasePlan is a Dutch company specialised in the management of company vehicles, that is fleet management. The company was founded in the Netherlands in 1963, following a joint venture between a bank and a company providing services to drivers. In 2003, the holding company of the LeasePlan group was renamed LeasePlan Corporation.

The company is present in 30 countries with 6,000 employees, managing the fleets of more than 75,000 customers, which represents a global fleet of 1.3 million vehicles worldwide. LeasePlan is the overall market leader in the field of fleet management worldwide.

LeasePlan provides global solutions for companies to reduce their costs of their vehicle fleet in Hungary since 1994. LeasePlan takes over all work, from the purchase of the vehicles through their full running up to the sales of the vehicles, called operational lease. As a result, clients have to keep contacts only with one supplier in all questions relating to the car fleet and administration matters. LeasePlan Hungary is market leader in Hungary, having 30% share of the fleet management market with 9,000 cars, 450 clients (i.a. IBM, E-On, Metro, Coca-Cola, Nestle, Sandoz), 75-80 traders and 70 employees. The company is also a regular sponsor of the King's Day reception at the Residence.

FrieslandCampina Hungária Zrt. completes expansion

On July 9th, FrieslandCampina has inaugurated a new production facility in Mátészalka following a HUF 650mn investment, where the company is making cottage cheese desserts. Due to the investment more than 50 additional jobs were created, whereas the number of employees at the Matészalka site is now over 300. With the new facility, the company is ready for future product innovations. The inauguration ceremony was held in the presence of CEO Péter Szautner, State Secretary Róbert Zsigó, Ambassador Gajus Scheltema and Agricultural Counsellor Martijn Homan.

In his speech, managing director Szautner stressed the importance of longlasting relations with domestic farmers which supply the facility with high quality milk and products. State secretary Zsigó stressed the importance of innovation and technology in companies like FrieslandCampina in order to strengthen the competiveness of the Hungarian food industry. Recently it was announced by the Hungarian Government that a budget of more than HUF 300bn (EUR 9.7bn) will be available in the coming years aimed at strengthening this sector, which is the third most important sector in the agribusiness.

Macroeconomic indicators

Investments soar 23% in 2014, fuelled by EU project

The volume of investments shot up 23% year-on-year in the first quarter, the Central Statistics Office (KSH) announced. Investments in the economy as whole have been growing since the second quarter of 2013. In the first quarter, investments went up 65% in the transport and storage industry, compared to 34% in the health care sector, 27.6% in manufacturing, 18.5% in agriculture and 14.2% in construction. On the other hand, there was a 2.8% drop in commercial and retail investments. The main source of buoyant investment activity is the accelerated use of the outstanding EU funds.

Industrial output 9.6% up on annual basis

Industrial output in Hungary dropped 1% between April and May, but increased a healthy 9.6% year-on-year, according to a report published by KSH. The decline in April-May ended a trend of steady increases over the last four months. Analysts said the 1% drop does not suggest any downward trend, however more slowdown is expected in the coming months, as automotive production is near capacity limit, so it cannot drive further growth in manufacturing output, analysts said.

Economic and monetary policy

Economy Minister outlines new economic policy

The economic model based on combining cheap labour with imported technology and know-how is becoming outdated, as neighbouring countries now also have skilled labour, which had been Hungary’s advantage earlier, Economy Minister Mihály Varga told *Napi Gazdaság* in an interview.

Varga underlined that the government now supports industries that are able to produce higher value-added goods. Priority is given to vehicle manufacturing and the related electronic industry, as well as to logistics, health care, tourism and the food industry, he listed.

He confirmed plans to spend 60% of the available EU subsidies for 2014-20 on the economy, compared to 16% in the previous seven-year period, saying this will mean fewer tiles on public squares but more jobs.

FX bill may cost banks HUF 600-900bn

The Parliament passed the bill on the foreign-currency borrowers, in order to adopt the long-awaited ruling of the Kúria (Supreme Court) which deemed that former practice by the banks had been unfair. The bill will cost the bank sector HUF 600-900bn (EUR 2-3bn), according to MNB deputy governor Ádám Balog, who added that this will not jeopardise the stability of the sector.

Nevertheless, the HUF exchange rate considerably weakened on the news. The banks will have 90 days to convert the loans into HUF and repay clients the difference gained by exploiting different exchange-rate margins for buying and selling foreign currency. The bill will not apply to those who opted for lump-sum repayment of their foreign-currency mortgage loans at below market rates in 2011-12. In drawing up the bill, lawmakers assumed that every contractual term that enables banks to unilaterally raise interest rates, costs or fees is unfair, so the burden of proof has been reversed. Banks can seek recourse in court but will have to demonstrate that their terms are fair.

The courts will have 30 days to rule on such challenges by banks. It remains to be seen how the law will be implemented and interpreted by the courts, but most analysts believe that a sort of compromise solution with the banks should be found such as the deductibility of FX conversion scheme from the banking tax for instance.

Base rate cut continues

The Monetary Council of the MNB reduced the central bank's base rate from 2.4% to 2.3% at its last meeting of the month. The Council noted that it has significantly reduced the base rate since August 2012, and with prices actually falling in recent months, there is no threat of inflation from efforts to ease the money supply. In the Council's judgement, the significant easing of monetary policy implemented so far has helped the Bank achieve the inflation target in the medium term and has contributed to the strengthening of domestic economic growth.

In a separate event, the MNB announced the key figures of its inflation report. It has lowered its 2014 average inflation forecast from 0.7% to 0%.The central bank also lowered its 2015 inflation target from 3% to 2.5% and now projects 3% inflation in 2016. There is low inflationary pressure from imports, wages, or output, the MNB concluded.

Employment

Unemployment rate continues dropping

Hungary's unemployment rate between March and May was 8%, a slight improvement, according to figures released by the KSH. Observers said that the slight improvement could probably be attributed to seasonal factors. The figure represents a larger improvement from a year ago, when unemployment was still 10.5%, according to KSH. This means that about 195,000 more people were working in that period as compared to a year ago. According to estimates, about half of those added to the active labour force are working for public work schemes.

Gross wages 6.5% higher in April

Gross wages in the economy rose 6.5% year-on-year in April, rising by 10% in the public sector and 5.2% in the private sector, according to figures from the KSH. The figures do not include wages paid to those on public works schemes however. Real wages were up 4.2% in April, as inflation was slightly below zero. Gross wages were the highest in the financial and insurance sectors, at HUF 557,922 (EUR 1,800), and were HUF 477,249 (EUR 1,540) in the IT and telecoms sectors.

Business environment

EIU and E&Y remain critical in Hungary

When it comes to providing a good place to do business, Hungary ranked 40th out of 82 surveyed countries worldwide, and eighth out of 16 CEE countries, according to the *Economist Intelligence Unit's Business Environment Index*.

Hungary's position in the latest ranking has dropped since last year, when the country placed 35th worldwide and fifth in Eastern Europe. The index looks at a range of factors that determine how easy it is to do business in 82 different countries. According to the EIU, Hungary's high taxes, political environment and high levels of debt are the biggest drawbacks to doing business here. "*Although the country's openness to trade favourably influences the investment climate, the large tax burden and increased concerns over the tone and unpredictability of the government's policy towards foreign investors weighs on the overall score*," the EIU was quoted as saying.

The perception of corruption in Hungary remains high, as 60% of respondents to a recent survey said bribery is common, up from 58% two years ago, according to consultancy firm EY. In Central Europe the corresponding figures was 47%, while in Western Europe only one in five companies reported experiences of corruption. The report is based on a survey of 2,719 board members and CEOs from 59 countries, including 52 from Hungary. One of the most acute problems in Hungary is the lack of punishment for those who break anti-corruption rules, said EY's Ferenc Biró. Only 28% of the respondents in Hungary said wrongdoers suffer any consequences.

Hungary still has to close the digital gap

Hungary is making progress in closing the digital gap, but internet penetration remains well below the EU average, according to KSH's 2013 yearbook. The total number of internet subscriptions rose last year by 19% to 6.4 million, two-thirds of which were mobile internet subscriptions. In Hungary 71% of households have internet access, while the EU average is 79%. Furthermore, the country is ranked near the bottom with 88% internet penetration among businesses. The number of companies with a website went up from 57% to 61%, but that is still significantly lower than the 71% average in the EU. Info-communications represent an important breakthrough potential for the upcoming period, minister of National Development Miklos Seszták said. The government plans to give all Hungarian households access to broadband internet by 2018.

As to the main trends in the e-commerce, a total of 3.4 million Hungarians, or 72% of regular internet users, have made at least one online purchase in the past one year, a fresh survey by eNet-Telekom showed. Of the remainder, 12% had made online purchases more than a year ago and 16% have never bought anything online. Last year, online retail sales in Hungary reached 3.1% of total retail turnover.

Large companies see revenue rising

Some 52% of large companies forecast growing revenues for the next 12 months, 39% see stagnation and only 9% envisage a drop in income, market researcher GfK found in a survey financed by K&H Bank. Large companies on average expect a 2.4% increase in their profits this year. Nevertheless only 20% are planning to hire more workers, while 75% forecast no change in their staff. Despite the optimism regarding revenues, most of the companies are not planning fixed capital investments, which is bad news for banks, according to Peter Robben, head of company credit at K&H bank. Companies have excess liquidity and do not need credit, he added.

EU relations

European Commission softens Country Specific Recommendations for Hungary

Hungary's top economic priority should be to reduce the state debt, the European Commission said as it released economic recommendations (CSR) for member states. Improving credit extension should be the second priority, while simplifying company taxation is the third.

Seven recommendations were made for Hungary, including boosting employment in a sustainable manner and improving competitiveness. The EC also recommends more investment and efficiency in the energy sector, and said too many students are dropping out of education. A novelty among recommendations is that increasing poverty is now replacing discrimination, which affects about one third of Hungarian society, the EC underlined.

However, having discussed at the ECOFIN, the standpoints of its country specific recommendations were somewhat eased. The biggest change is that the EU has dropped its call for an austerity package equal to 0.9% of GDP. Nevertheless Hungary has to strengthen budgetary strategy and keep the structural fiscal deficit ratio and state debt on a sustained downward path. It also recommended that Hungary improve the transparency of public finances and "*help restore normal lending flows to the economy*".

More EU funding for large cities

County seats will play a key role in growth in the provinces in the coming years, János Lázár, Minister heading the Prime Minister's Office, said. Lázár told a press conference that each seat will become a centre of growth and will play a key role in closing the gap between Budapest and other major cities. The government will earmark HUF 370bn (EUR 1.2mn) for the economic development of these cities from national and EU funds.

He added that the government plans to sign cooperation agreements with all the county seats, where more than one-fourth of Hungary's total population live. Lajos Kósa, vice-president of Fidesz and mayor of Debrecen said the government plans to draw up 20-25 growth zones. Focus points will include export-oriented small and medium-sized companies, innovation, industries with high added value and services, he added.

Government maintains the plaza stop

Despite the infringement procedure launched by the European Commission in April, last, Hungary could extend a ban on the construction of big shopping malls. State secretary Kristóf Szatmáry told the Hungarian daily *Magyar Nemzet* that the continuation of the ban has been justified. The ban on shopping malls over 300 square meters is in place between 2012 and the end of 2014. Szatmáry said the ban had raised Hungarian companies' share of the market for fast-moving consumer goods to 40%. In April, the EC launched an infringement procedure against Hungary concerning the ban. Following the EC procedure, Hungarian governing party Fidesz said that Brussels is taking the side of multinationals.

Transport/Logistics

HUF 8bn more for M0 project

The government has increased its funding for the ongoing work on the Budapest ring road M0 to HUF 105bn (EUR 338mn), it was reported in the official gazette *Magyar Közlöny.* The M0 is to be widened to a three-lane motorway between the M1 and M5 highways. However, the construction of the western part of the M0 ring road around Budapest can start only in the 2020-2027 EU budget period, the National Infrastructure Developer (NIF) informed. NIF said a preliminary environmental study had already been completed and an environmental permit could be obtained by the autumn of 2016. More than half of the 18 km stretch is expected to be tunnel.

Russian retailer plans distribution centre in Záhony

Russia's largest retail chain Magnit has chosen Záhony near the Ukrainian border as the site for its new logistics centre, mayor Imre Háda said. The centre will operate with a fleet of 1,000 transport vehicles.

Energy/Sustainable energy

Further deliveries of gas are expected from Russia

Officials of the state-owned Hungarian Electricity Works (MVM) and Russian Gazprom will discuss further deliveries of gas from Russia to Hungary, Hungarian business daily *Világgazdaság* reported. According to the paper, the Russian seller is seeking guarantee that the gas aimed to boost Hungary's energy security will not turn up on international markets. To facilitate the process the energy and utility authority MEKH has reduced the storage fees for gas by half, *Napi Gazdaság* reports. The HUF 100bn (EUR 322mn) cost of the additional gas purchase will be provided by a loan from MVM's owner to its gas trade unit *Magyar Földgázkereskedő*, according to recent press reports.

In the month of June Ukraine, imported approximately 214 million cubic meters of gas via Hungary, according to data from *FGSZ Földgázszállító* (FGSZ), the gas delivery unit of Hungarian oil and gas company MOL. Ukraine has been importing gas via the country since May 1st.

DD Energy begins geothermal drilling

DD Energy, the wholly-owned unit of alternative power company PannErgy, has begun drilling in Pér, near Győr to deliver geothermal energy to industrial users in the region, *Napi Gazdaság* reports. DD Energy won HUF 1bn (EUR 3mn) in EU funds to finance the investment, which in scale will be similar to its geothermal investment in Miskolc, with projected capacity of 340-400 terajoules. Energy sold from the Miskolc project boosted PannErgy's revenues by HUF 632mn (EUR 2mn).

Sinergy building biogas plant

Hungarian company Sinergy is building a biogas plant in Balassagyarmat for nearly HUF 1.5bn (EUR 4.9mn), to provide cheap heating for the local sewage works, cable factory and swimming pool. The plant will produce an annual 7 gigawatts of electricity and 23,000 gigajoules of heat. Half of the costs are covered by EU subsidies. Construction starts in July and will be completed by May 2015.

Environment/Water Management

New waste treatment plant open

Hungarian-owned alternative fuel company Geosol completed development of a biomass and waste treatment system, with an investment of HUF 2bn, at its facility in the Mátrai Power Plant Industrial Park. The project was launched in July 2012, and 50% of the costs were covered by European Union funding. As the result of the technological expansion, the plant now has the capacity to process 200,000 metric tonnes of alternative fuel and communal waste a year and treat 50,000 tonnes of sewage.

Innovation/Creative industries

New Puskas Stadium to be build

The new Puskás Ferenc Stadium in Budapest is expected to be built from HUF 90-100bn (EUR 290-300mn) in three years starting in 2015, government commissioner László Vígh said. "*We targeted the price of the stadium to total 3-4,000 euros per seat, so in the current phase of planning, the total price is estimated at HUF 90-100bn* (EUR)," he told commercial channel Sport TV.

As a matter of comparison, he said the cost of Espanyol's stadium opened in 2009 was only 1,450 euros per seat but Wembley and the Warsaw stadium cost around 11,000 euros per seat. In line with current plans, the new stadium will have a capacity of 65,000 and the venue will have facilities to cater for 21 different types of sporting activities, he said.

Nano-structured materal project gets green light

The Nanostructured Materials Research Group of MTA Research Centre for Natural Sciences is joining the Graphene Flagship project. The group focuses on graphene-based, sandwich-like composites, and its findings will be part of the "High Frequency Electronics" work package. Initiated by the European Commission, Graphene Flagship aims at developing future and emerging technologies with a budget of EUR 1bn, as a part of its Future and Emerging Technologies (FET) programme.