



## Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

June 2015

### Embassy activities

#### **“Nothing is Impossible: The Sustainable NGO” conference and workshop**

On June 3<sup>rd</sup>, 2015 the Embassy of the Netherlands in Hungary together with the British, the French and the German Embassies and the Representation of the European Commission held a workshop for civil society organisations on funding opportunities and international best practices. Ambassador Gajus Scheltema emphasized in his opening speech that “*the Netherlands believes in the notion of an open democracy that bases its functioning on a dialogue and strong cooperation with the civil society sector*”. He added that the civil society is a grass-root instrument of democracy and change, and the Netherlands supports this worldwide through financing and cooperation projects.

The workshop started with an open-to-press panel discussion on the role of the civil society with the involvement of the Hungarian government and continued with technical close-to-press workshops on funding, impact and networking for the representatives of NGOs. More than 60 NGOs from the capital and the countryside of Hungary participated in the event, which was supported by the contribution of local partners and international experts from the organizer States. The Embassy of the Netherlands intends to continue supporting the civil society sector in Hungary with plans to organize another event focusing on the relationship between companies’ corporate social responsibility and the NGO sector, as well as with a series of events during the Dutch EU Presidency in 2016 focusing on NGOs operating in the rural areas of Hungary.

#### **CSR market place 2015**

On June 4<sup>th</sup> a successful CSR Fair event was held in the Lurdy Event Center, co-organised with *KÖVET-Association for Sustainable Economies* and *OFA-the Hungarian National Employment Agency*. The event, organised for the fourth time in 2015, ensured a platform for small, medium and also large enterprises to share their CSR solutions and experiences with the visitors. The Royal Netherlands Embassy was an exhibitor at the fair, distributed the CSR passport and brochures of several Dutch companies. Elzo Molenberg, deputy Head of Mission, joined the panel discussion on responsible employment. More information: <http://www.csрпиac.hu/csr-market-2015.html>

#### **Visit of Port of Rotterdam representatives to the Embassy**

On June 24<sup>th</sup> Franz Zauner, the local representative of PoR in Austria, and Linda Borsodi, Senior Business Manager Logistics, paid a visit to our Embassy to discuss the upcoming logistics seminar which will be co-organised with Dutcham on October 1<sup>st</sup>, next. PoR will be represented on this upcoming event by 2 colleagues from the Netherlands who will give a lecture about Rotterdam Supply Chain Optimisation.

## **Water mission to Hungary, Slovakia, Slovenia and Romania**

Following a successful water seminar and brainstorming meeting with the representatives of the Netherlands Embassies in the region in November last year in Budapest, the participating Dutch companies concluded that the Danube region offers opportunities in the fields of Flood Risk Management and Urban Water Management which should be further examined.

The consortium of Arcadis, Deltares en Kyl BV is carrying out two fact finding missions in June-July 2015 in the framework of a pre – *Partners in International Business* (PIB) programme which will result in a study about the water management project opportunities in the Danube region which will be presented by the end of September 2015 to RVO-Netherlands Enterprise Agency and sent to the embassies involved. The study should provide sound foundation to larger Dutch investments in the water sector in the Danube region.

## **Sponsor lunch at the residence**

On June 26<sup>th</sup> the traditional sponsor-lunch at the residence took place with Ms Eszter Vitályos, Secretary of State for EU development, as guests of honour from the Prime Minister's Office. Ms. Vitályos was joined by Mr Zsigmond Perényi, deputy State Secretary for International Affairs and Mr Gábor Dányi, deputy State Secretary for Coordination. The Ambassador took this opportunity to underline the gratefulness of the Embassy to the golden and silver sponsors of this year's King's Day celebration for their contribution.

## **Visit at Biopolus**

On July 2<sup>nd</sup> Ambassador Gajus Scheltema, accompanied by trade officer Eva Szabó and senior policy adviser Marina Varga visited a Hungarian company Biopolus, which is the first non-Dutch member of the Circular Economy Association in the Netherlands. The company has developed new technologies which close the waste metabolic loops in an integrated and sustainable manner. CEO Istvan Kenyeres also presented the sewage plant in the South Pest, an excellent show case of this technology which allows the maximal reuse and recycling of resources.

## **Dutch presence in Hungary**

### **Heineken upgrades packaging**

Managed by Heineken Hungaria CEO Joris Huijsmans, the brewery has opened a new packaging unit in Sopron, completing a HUF 1.8bn (EUR 5.7mn) development project. Heineken supports job creation in Hungary, as 86% of its suppliers are Hungarian, Foreign Affairs and Trade Minister Péter Szijjártó declared at the opening ceremony. The new unit has the capacity to wrap and seal 45,000 six-packs of beer every hour.

## **Transport|Logistics**

### **Waberer appointed government commissioner**

Prime Minister Viktor Orbán named Waberer's International CEO György Wáberer, who also heads the freight forwarders association, as ministerial commissioner for logistics and transport affairs. The appointee's task will be to come up with proposals to make the sector more competitive and to implement these measures.

## **Energy|Sustainable energy**

### **EC wants to scrutinise the Paks2 project**

According to press reports, the European Commission decided to scrutinise the Paks2 investment project to see whether there is a possibility of forbidden state aid. The decision of the EC can be

expected in the Autumn, but to get a green light from the DG Competition the Paks2 project should pass the so called “market economy investor principle”, in order to test if a market investor would be ready to invest into this project under the same conditions. The expansion of the Paks nuclear power plant will not produce any profit, but rather will require additional funding, according to a study produced by Balázs Felsmann, a former energy state secretary. The study prepared for the Energy Club Hungary concluded that the EUR 12.5bn expansion project is not financially feasible, based on the data available and business model simulations. For instance, even if electricity prices are 25% higher by 2026 – which is unlikely – and the plant reaches 92% capacity utilisation, the project would still suffer a EUR 3.3bn loss, the study shows.

### **New solar farms in sight**

Hungarian company Newenergies opened a solar cell farm in Jász-Nagykun-Szolnok County. The farm can produce annual 550,000-580,000 KWH of electricity, enough to supply approximately 200 households. The owners are hopeful of a return on their HUF 185mn investment in ten years, and expect the farm to operate for 35 years.

In a separate event, the foundation stone of the largest, 15 megawatt, solar cell farm in Hungary was laid in the Mátra Hills. The project in an unused waste depot belonging to power station Mátraerőmű in the Ózse Valley will cost HUF 6.5bn (EUR 21mn). The cells will be laid out on a 30-hectare area, and the testing of the 72,000 solar cells will start in August and last for one and a half months.

## **Environment|Water Management**

### **Flood protection strategy is being prepared**

According to István Láng, the deputy Technical Director of the General Directorate of Water Management, a social debate will soon be launched on the flood protection strategy. He believes that at least as much attention should be given to the maintenance of existing protection structures as to the building of new ones. *‘Our flood protection strategy is currently being prepared. There is no point in building new structures when the old ones do not function properly. Our conference today also focused on the preservation of high-water riverbeds since in the last 30 years these beds have either silted up or been overgrown by trees so much that practically they cannot provide space for the floods any longer; as a consequence the floods get higher and higher. Almost all Hungarian rivers are impacted by this process. A complex survey has recently been made on the rise of the floodwater levels in the last 30-40 years and this is due to the poor maintenance of the riverbeds.’*

Mr Láng also added that the former status could not be restored since the areas were nature protection areas or got inhabited. *‘So, we do not intend to destroy such areas but to stabilize the high-water riverbeds and stop further deteriorations; thus, the new conditions could support us in securely channelling the floods. This is to be done by setting out pasture-lands and open areas for the free runoff of the floods. If there is no cutting but overgrown vegetation, one can observe not only backflow but higher flood peaks since the riverbed would act like a dam. Therefore, we have prepared such an operation and development recommendation that can result in lower flood peaks. We are now before the social debate stage of the strategy making process. The plans are being finalized, we have 67 of them, and we wish to form them into a ministerial decree following the opinion poll.’* Mr Láng also stated that *‘no cost estimate has been prepared yet; at the moment we are carrying out risk assessments for our river sections, adhering to the regulations of the EU, to see the economical values of the areas in order to classify them and define the urgency of intervention. After this, one will have the opportunity to look at the costs, too.’*

### **EU to fund Tisza river border crossing**

A new river crossing border station will be built on the Tisza River between Hungary and Serbia with a EUR 1.6mn EU grant (HUF 500mn). The main infrastructure for passenger and freight traffic will be built during the summer and the river will be declared an international waterway.

## **Research|Innovation|Creative industries**

### **Start-up guide refreshed**

The Hungarian Form Designer Council (MFT) published a revised Start Up Guide for fresh design graduates in Hungary to help them launch their own design business. The current revised edition offers updated chapters with the additional feature of providing guidance on how to turn an idea into a business solution in order to attract investors.

The Hungarian publication [can be downloaded for free here](#).

## *EU relations*

### **EIB extends EUR 500mn credit line**

The European Investment Bank (EIB) is lending EUR 500mn - the first tranche of an approved loan amount of EUR 1bn - to Hungary to co-finance priority projects receiving support from EU Cohesion Funds, European Regional Development Funds and Connecting Europe Facility within the programming period 2014-2020. The EIB funds will support investments in water, including flood prevention, waste, energy efficiency, renewables and distribution as well as transport projects, completing the road and railway TEN-T and improving roads in less developed areas and railways throughout Hungary. In addition to large-scale infrastructure projects, the EIB loan may also be used to finance smaller schemes, which, due to their limited size, would otherwise not qualify for direct EIB financing. EIB investment in Hungary for 2014 came to EUR 756mn, with SMEs accounting for 46% of this figure. Notable contributions were also made to the energy sector as well as transport and telecommunications infrastructure.

### **EC tells Hungary to adjust land law**

The European Commission has given Hungary two months to bring its Land Act into harmony with EU rules on cross-border investment, Napi Gazdaság writes. After two months the case will be referred to the European Court of Justice, in the absence of a government response. The EC began an infringement procedure last October after complaints from Austrian farmers.

Parliament last year passed a bill to eliminate the “pocket” contracts on the lease and sale of farmland to foreigners. In the Commission’s view the Hungarian legislation restricts the rights of cross-border investors in a way that may violate EU laws on free movement of capital and freedom of establishment. The EC also argues that terminating the contracts with a short transitional period unfairly impedes the right to ownership. The government vowed to defend the legislation which it says protects Hungarian farm-land from speculators.

## *Macroeconomy*

### **MNB reduces investment forecast**

The MNB lowered its projections for investment growth this year to 2.2% from an earlier forecast of 5.2%, in its quarterly economic report released. Capital investments are seen falling, due to the drop in state-financed projects after Hungary tapped EU funding available during the 2007-13 budget cycle, and to the lack of new EU tender announcements. In its revised forecast, the MNB expects a 2.1% decline in investments next year, compared with the 1.2% decline forecast three months ago. In a separate event, the economic research institute GKI also forecasts a slow-down in GDP growth from 3.6% in 2014 to 2.7% this year and about 2% next year. The main problem is the future stagnation and decline in fixed capital investments, GKI concludes.

### **Audi looks to expand further**

Audi Hungaria will double its storage capacity with the construction of a new, 66,000m<sup>2</sup> warehouse in Győr, the company confirmed to Napi Gazdaság. The new logistics centre was needed to keep up with rising production, as the car-maker expanded its engine development centre last month. The company said it will expand capacities in engine testing until 2017. Audi will continue to carry out large-scale investments at its Hungarian manufacturing site in the coming years. Since founding its Hungarian subsidiary, Audi has invested EUR 7.4bn in Győr. The factory with 11,500 employees now rolls out 135,000 cars and 2 million engines annually.

### **Government approves HUF 2bn for IT SMEs**

The government has decided to launch a HUF 2bn programme to help SMEs to close the e-business gap with large companies, Economy Minister Mihály Varga announced at an Information Society Parliament conference in Parliament. The two-year programme seeks to assist some 3,000 applicants in efforts to develop skills and business strategy. Speaking about digital literacy, Varga said 40% of the population above age 15 do not use computers and 84% of those who lack digital skills are older than 45, and 52% have only elementary education.

The IT sector is developing fast and the government's goal is to have broadband internet access of at least 30Mb/s in every household by the end of 2018, said Mónika Karas, head of media and telecoms regulator NMHH. Tax laws for 2016 give tax benefits for the development of broadband internet, she added. The 3400-3800 MHz frequency tender will be announced this year or in 2016 as part of efforts to stimulate investment.

### **HUF 200bn for food sector development**

The cabinet has approved a food industry development strategy for the next five years, during which HUF 200bn will be distributed in the sector, Agriculture Minister Sándor Fazekas announced. Slaughterhouses, meat processors and dairies, along with fruit and vegetable conservation and processing companies will enjoy priority in the allocation of funds. The government's strategic goal is to increase the annual turnover of the food industry from HUF 2.5 trillion to HUF 3.5 trillion by 2020, leading to the creation of 10,000-15,000 jobs. New investments will also help to increase the profitability of the sector from near zero to 4-5%.

### **Grexit would hurt forint in short term**

The forint and Poland's zloty would be the Eastern European currencies most affected by a Greek exit from the euro, as these countries' bond markets have highest percentage of foreign investors, according to analyst András Balatoni of ING bank. These currencies will weaken for a short period as foreigners sell their forint and zloty denominated bonds, he added. The HUF/EUR exchange rate might 315, but the forint will recover in the long term, because Hungary's vulnerability has been reduced in recent years, Balatoni added. As to possible more general economic impact, Greek banks have no presence in Hungary and only 0.4% of Hungarian exports go to Greece. Exposure to exchange rate volatilities has been also decreasing as foreign-denominated debt has been reduced to 35% of the total state debt, Ministry of National Economy pointed out.

### **2016 budget figures approved**

Parliament approved the outlines of next year's budget, anticipating total revenues of HUF 15.8trn (EUR 50.9bn), and expenses of HUF 16.561trn (EUR 53.4bn). The budget deficit target is HUF 761bn. The 2.5% GDP growth rate might be too optimistic, the analysts warn, and additional measures may be required to keep the budget deficit under control. The calculations of the government are based on projected average exchange rates of Ft 303.7 per Euro. The budget foresees the deficit narrowing to 2% of GDP from a planned 2.4% this year. Personal income tax is set to drop by one percentage point to 15%. Revenue from a special tax on banks will fall by HUF 60bn (EUR 194mn) in an effort to encourage lending and ease the government's conflict with the financial industry. On the spending side, the fixed capital investment fund has been raised from the earlier HUF 121bn to HUF 131bn. Note the budget draft was submitted and approved much earlier than usual and proposed tax cuts are meant to impress credit rating agencies.

It is worth adding that Hungary is among the EU member states where the state redistribution via central budget is higher than average. Government expenditures in Hungary were the equivalent of 50.1% of GDP last year, just over the 48.1% European Union average, a report by Eurostat shows.

## Employment

### Labour irregularities widespread

A recent investigation by the labour department of the Economy Ministry found that 62% of workers are employed irregularly; Irregularities were found at 58% of the 5,208 employers investigated, involving 22,600 employees. The most common irregularity was illegal employment, accounting for 14% of the total.

## Business environment

### Venture capital investments up by 56%

Venture capital funds in Hungary invested a joint HUF 4.4bn (EUR 14.2mn) in Q1 this year; a figure that reveals a year-on-year increase of 56%, the Hungarian Venture Capital Association (HVCA) reported. Data from the report suggest that approximately 40% of investments were in business and industrial services, some 18% in consumer products manufacturing and trade while the computer and consumer electronics branch saw an investment of 16%. HVCA said that venture capital funds closed 26 transactions in Q1, and also saw two exits, though these were only worth a combined HUF 70mn. The transactions varied in size between a few million forints to HUF 767mn, the report added.

## Legislation

### New supervisory body will oversee auditors and tax consultants

The government is working on the creation of a new supervisory body, which would oversee accountants, auditors, bookkeepers and tax consultants, Economy Ministry state secretary Zoltán Pankucsi told Napi Gazdaság. He said recent scandals at brokerage firms and large-scale tax frauds justify the formation of a new body with the authority to impose punishments. It would also be responsible for defining the requirements for obtaining licenses and issuing them, he added. The market has become very diluted, Pankucsi observed, but said “*We cannot put a tax man behind every firm,*” referring to the 800,000 companies and private entrepreneurs engaged in bookkeeping, auditing and tax consultancy. He maintained that there is a direct link between the lack of monitoring in that segment of the financial sector and tax fraud and other misdemeanours.

### New law reregulates bailiffs

The Chamber of Bailiffs will be dismissed on August 31 and replaced by the Corps of Bailiffs on September 1 under a bill approved in Parliament. From that date bailiffs must have law degrees and will be selected at tenders for a fixed term of seven years. The head of the Corps will be appointed by the Justice Minister, also for seven years. The bill requires bailiffs to take out liability insurance policies in the future. They will also be required to work in dedicated offices, where no other business activity is carried out.

### Lázár confirms land subsidy policy changes

The cabinet surveyed who received what agricultural subsidies in the previous EU term and discovered that 5% of recipients collected 75% of the subsidies, Prime Minister’s Office leader János Lázár said. This helped convince the cabinet to rear-range the land-based subsidy system, he said, therefore holders of land above a certain size will no longer be eligible for the land-based EU funds. The European Commission has approved a guideline proposed by the government under which small farms will receive 80% of the subsidies in the EU’s regional development operative programme.