



Koninkrijk der Nederlanden



Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

March 2014

Dear Readers,

We have changed slightly the format of our monthly economic newsletter. This is partly related to the restructuring of the Embassy which includes – among others - the closure of the agricultural department in the coming months.

From now on we also aim to give an overview of the Embassy's activities in the field of promoting economic relations between the Netherlands and Hungary; therefore we will have a separate section on Embassy news. Furthermore we will focus more on the priority sectors, namely the creative industries, renewable energy, transport and logistics, and last but not least water management.

We will still report on the main Hungarian developments in relation to the EU, and in particular on the use of EU funds and tender opportunities for Dutch companies. As to the main economic and policy developments and the general business environment in Hungary, we will keep a section on them, but instead of giving a detailed overview we will report only on the key developments that may affect directly or indirectly the bilateral trade and investments.

If you have any comments or suggestions concerning the new format or if your company has an interesting story to report in our "*Dutch business in Hungary*" section, please do not hesitate to contact us via BDP-EA@minbuza.nl.

I sincerely hope that you will like our renewed newsletter, you will find it useful in your work and agree that a shorter newsletter will aim not at "less" but at "more", due to its better focus.

Gajus Scheltema

Ambassador

The Economic Section of this Embassy has switched to a new system and company database, named Achilles which has been used for years successfully by the NFIA and NBSO networks in promoting bilateral trade and investment.

On March 4, *ING Insurance* organised a dinner under the 'use of the Residence' programme.

On March 10, *De Lage Landen* moved into their new offices on Váci út 76. The Hungarian subsidiary is the no. 1 in Hungary as to the customer satisfaction and the biggest professional transport leasing firm in Hungary. The company organised a dinner under the 'use the Residence' programme the same evening.

On March 12, Éva Szabó TPO has visited the 8th RENEXPO® Central Europe Trade Fair. The 51 exhibitors from 6 countries, amongst them professional partners like Hungarian PV and Solar Thermal Association, Hungarian Ministry of National Development, Hungarian Innovation Office attracted 2.488 visitors. Side events were organised for the professionals: 3rd International Solar Conference, The Renewable Energy Policy of Hungary and the International Brokerage event.

On March 12, the Customs Department discussed the issue of the exemption of import duties for returning goods with Philips.

On March 13, the *Hungarian Business Network* together with the *Royal Tropical Institute* has organised a seminar about value chains between Hungary and the Netherlands. The purpose of the seminar was providing an overview of the opportunities that exist for creating these types of goods flows. Martijn Homan, *Agricultural Counsellor* highlighted the opportunities in horticulture in Hungary.

On 20 March, Ambassador Scheltema organised an informal dinner for several Dutch and Hungarian film producers, a network event at his residence. Producers of recently finished and upcoming large-scale joint productions that were or are to be shot in Hungary had the opportunity to discuss achievements and plans in the presence of *National Film Fund* and *Foreign Ministry* representatives.

On March 20, a Ambassador and DHOM had a meeting with the representatives of *Kurstjens BV*. The next day, Éva Szabó *Trade Promotion Officer* has visited the biogas plant in Várda. A meeting with the owners Kurstjens family, Mark Visser, *Managing Director* and Laura Kőmíves, *HITA* took place there to assist with permits to be able to start operations after 6 years of preparations.

On March 25, Ambassador Scheltema visited the city of Kecskemét, where he met with *City Mayor* Gábor Zombor. In the evening they opened the Dutch Cube exhibition of abstract art together. The pieces on display at the Bozsó Collection are by internationally renowned Dutch artists: Joost Baljeu, Bob Bonies, Ad Dekkers, Cor Van Dijk, Geert Van Fastenhout, Arjan Janssen, Ditty Keeting, Peter Struycken, and Piet Tuytel.

On 26 March Sándor Erdei *CEO DBH* and István Molnár *PR Manager DBH* met with Ambassador Scheltema to discuss start-up companies and the possible involvement of Brainport Eindhoven, as well as a possible presentation in Budapest of the Netherlands as an investment location for trust funds.

The Agricultural Department of Embassy of the Kingdom of the Netherlands in Budapest and the Hungarian Agricultural Research Institute (AKI) published a report on the poultry industry in Hungary. You may request a free copy of the report: 'Factors affecting the funding and profitability of poultry farms in Hungary', by sending a message to the Department for Agriculture, Nature and Food Quality BDP-LNV@minbuza.nl

EU relations

EU calls for tenders to be announced in autumn

Hungary submitted a Partnership Agreement providing the framework for the utilization of EU resources in 2014-2020 to the European Commission, and calls for tenders are expected to be published as of this autumn, Minister of State [Zoltán Cséfalvay](#) said at a press conference. In the new EU fiscal period, Hungary will utilize as much as HUF 7480bn (EUR 24bn) in total, originating from structural funds and cohesion funds as well as from domestic own funds, he stated.

Among the seven programmes, the total fund of the *Economic Development and Innovation Operation Programme (GINOP)* is the largest with some HUF 2720bn (EUR 8.8bn). However, the total amount to be allocated for direct economic development is HUF 4430bn (EUR 14bn), as funding from other operative programmes can also be disbursed for this goal.

The second largest programme, the *Regional and Urban Development Programme (TOP)*, has a fund of some HUF 1160bn (EUR 3.8bn), the two-thirds of which will be directly devoted to enterprise development.

The other operative programmes have total funding as follows: *Integrated Transport Development Operative Programme (KOP)*: HUF 1034bn (EUR 3.3bn), the *Environmental and Energy Efficiency Operative Programme (KEHOP)*: HUF 1120bn (EUR 3.6bn), *Human Resources Development Operative Programme (EFOP)*: HUF 885bn (EUR 2.9bn), *Public Administration and Development Operative Programme (KÖFOP)*: HUF 300bn (EUR 0.9bn) and *Competitive Central Hungary Operative Programme (VEKOP)*: HUF 270bn (EUR 0.9bn).

Business environment / Legislation

M&A number on rise

According to EY 2013 M&A Barometer for Central and Southeastern Europe, in Hungary last year the number of transactions rose 20% to 91, with the technology industry accounting for 20% of deals, as it remains the most active sector for mergers. Interestingly 54 of the 91 transactions were domestic deals, i.e. those in which both buyer and seller were Hungary-based entities. EY notes that a special aspect of the Hungarian transaction market is that “*the Hungarian state, both directly and through state-owned companies became an active player*” in 2013. These transactions include E.On, Széchenyi Bank, Pécsi Vízmű Zrt., Gránit Bank and they were above the private sector average. The state purchased primary schools textbook publisher Apáczai in great secrecy in March for HUF 9bn (EUR 30mn), several sources confirmed to *Népszabadság*. The next acquisition deal that has been announced by the government is an agreement to buy 100% of broad-caster Antenna Hungária from French company TDF effective May 30. Moreover, the state energy company MVM will buy the 50% of Budapest gas distributor Főgáz, according to a government decree published in the official gazette *Magyar Közlöny*.

Hungary's judicial assessment improves

Hungary's assessment as regards the independence of the judiciary has improved, the European Commission reports, citing data from the World Economic Forum. Hungary is 66th among 148

countries, up from 72nd among 144 countries last year. In the EU Hungary is 18th among 28 member states, up from 21st among 27 countries last year.

Dutch presence in Hungary

ING Insurance focuses on pension insurance

Cornelia Coman, CEO of ING Insurance Hungary gave an exclusive interview to Portfolio on April 3 concerning the Hungarian insurance market and the plans of ING.

On the short-run we expect a moderate, but steady growth and on the long-run Hungary can close up to Western-Europe, she said. Everyone who can afford it, will become a regular saver, nevertheless the insurers have to adapt themselves in using new communication methods, such as public media, in order to reach out to the new generations, mainly in the case of pension insurance. This is a big opportunity and a big challenge at the same time.

As to our plans in Hungary, our shareholders are fully committed. The European insurance and trustee unit of the ING Group will become a separated, quoted entity, probably at the end of this year. Besides, we will return to the use of the NN name in 2015. All our activities will focus on 3 pillars: understandable language, commitment and care.

R & D & I / Creative Industries

Budapest to become a start-up capital

The Hungarian government is taking further steps this year to make Budapest the start-up capital of central and eastern Europe by the end of the decade, the economy ministry state secretary said. Zoltán Cséfalvay told the opening event of the SmartMobile conference in Budapest that the BudapestHUB working group, comprising representatives of Hungarian start-up companies and economy ministry experts, is working towards this goal. An Incubator-Link programme to link promising Hungarian start-ups with leading innovation centres in the world is soon to be launched. The Open/Living Laboratories programme will aim to connect start-ups with large companies, he added. The number of IT workers in the internet or mobile application business was practically zero in 2009, but rose to 2 million last year, Cséfalvay claimed. The sector generated EUR 20bn in Europe, a figure that is expected to triple within five years, he added.

Debrecen seeks stadium operator

Companies can file bids by April 14 to win the contract to operate the new stadium in Debrecen, due to open on May 1, according to the Public Procurement Gazette. No bids were filed in the first tender. Nagyerdei Stadion Rekonstrukciós, the construction company, in which the city of Debrecen has a 10% stake, is looking for companies to operate the stadium for 20 years and to sell the concession rights. The winning candidate must assume full-scale operation of the stadium, including catering and other services. Construction of the Nagyerdei Stadion, as the arena is called, is now in its final stage, as contractors are applying the finishing touches local website dehir.hu wrote.

Transport / Logistics

Road budget at HUF 165bn (EUR 530,000)

State-owned road maintenance company Magyar Közút has HUF 165bn (EUR 530,000) available for road maintenance and reconstruction works this year, Development Ministry state secretary Pál Völner said at the launch of a road upgrade project in Komárom-Esztergom county. Some 24km of the M1 motorway will be repaired by the end of 2015.

Esztergom freight ferry planned

A freight ferry will operate on the Danube between Esztergom and Stúrovo carrying 80 trucks daily from the spring of 2015, infrastructure development state secretary Pál Völner announced.

Energy / Sustainable Energy

Ministry working on electric car plan

The Economy Ministry is preparing an electric car subsidy scheme, providing grants and tax relief to help the spread of e-cars, Economy Minister Mihály Varga announced. The ministry is working on a programme named after the Hungarian inventor of the dynamo, Ányos Jedlik, to be financed from EU funds, Varga added. Besides easing the registration tax, the government will press for tax relief for electric car owners. As the relevant tax is collected by local governments, they need to be consulted, he added. The government is also working on ways to promote the spread of charging stations for electric vehicles.

Elmű, Émász to renew network

The Budapest electricity distributor Elmű and north Hungarian electricity distributor Émász announced the 15 winners of their tender to renew their distribution and public lighting networks. Total orders could reach HUF 48bn (EUR 155mn), according to the framework contract. Both companies are owned by German energy concerns RWE & EnBW. The list of winners can be read in the 7 April issue of the public procurement gazette *Közbeszerzési Értesítő*.

Environment / Water Management

Free irrigation promised

The government will provide free water for agricultural purposes, Fidesz MP István Jakab, who also heads farmers association Magosz. The government will allocate HUF 1 trillion (EUR 3.2bn) to develop an irrigation network in the 2014-20 EU budget period, he underlined. Some 100,000 hectares are watered in Hungary and permits have been issued for a further 100,000 hectares, in total representing only 5% of the arable area.

Retreading factory for used tyre opens

Marso Holding opened its 2,105m² tyre retreading factory in Nyíregyháza, with the capacity of 30,000 tyres per year. The factory cost HUF 200mn (EUR 639,000) of which 50% came from EU and domestic subsidies. This is Europe's largest truck tyre retreading factory, CEO Sándor Somlai underlined. Some 13,000 tyres will be retreaded at the facility this year and full capacity will be reached gradually within a few years, depending on orders.

Economic indicators

MNB lowers inflation projection cuts the rate further

The MNB cut its 2014 inflation forecast substantially from 1.3% seen in December to 0.7% in its latest inflation report. The large drop is probably due to the announcement of further cuts in utility bills since the last forecast *Napi Gazdaság* writes. Those cuts are also behind the slight in-crease in the MNB's inflation forecast for 2015. At its last rate-setting meeting of the month, the MNB lowered its base rate from 2.7% to a new record low of 2.6%, in line with the forecasts of most analysts. The monetary council indicated that the series of 20 consecutive rate cuts will end soon, by saying in its statement that the base rate has come close to the level that supports the MNB's medium-term inflation target of 3%, while also providing growth incentives.

Hungary remains vulnerable, IMF says

The IMF revised its 2014 economic growth forecast for Hungary to 2%, but warns that expansion is constrained in the medium term by the country's high external financing needs and state debt. In its report issued after two weeks of talks in Budapest, the IMF said Hungary remains vulnerable to external events, as it is dependent on external financing and monetary policy changes in developed countries. Tensions in emerging markets also pose risks, the report said. The government cannot meet its budget deficit target of 2.9% of GDP for this year, without drawing on its reserves, the study concludes. The IMF acknowledged the cabinet's efforts in labour market reform, but called on the government to improve the business environment and reduce bureaucracy.

Standards and Poor upgrades the outlook

Ratings agency Standard and Poor's revised its outlook on the long-term sovereign credit ratings on from "negative" to "stable," reflecting the "rebalancing" of the country's economy and "steadying economic prospects." "The stable outlook balances our assessment of. S&P said the ratings could be raised if the government were to *"establish policies that encourage investment, while implementing its structural reform program"* as well as if there is *"a sustained reduction in external debt net of liquid assets, even as economic growth strengthens."* Note that of the three large credit-rating agencies, two have recently improved their ratings of Hungary.

Economic and monetary policy

Trading house concept develops

State-owned Hungarian National Trade House Company (MNBK) which was established by the state and is minority-owned by the Hungarian Chamber of Commerce and Industry (MKIK), has established trade houses in Astana, Baku, Moscow, Beijing and Abu Dhabi. It received a HUF 3bn capital injection was received from the central budget last year. It is charging on average a 2% commission for promoting the exports mainly of small and medium-size companies, CEO György Kerekes said in an interview with *Napi Gazdaság*. The next openings are planned in Singapore, Vietnam and Algeria in April and May, while MNBK has taken a wait-and-see attitude toward the planned opening of a trading house in Ukraine, although see large potential for Hungary's vehicle and machinery manufacturing as well as its farm sector there. Kerekes said countries in the East were not an exclusive focus, but North Africa, South America and the West Balkan were also target markets. The aim is to raise the share of exports to non-EU countries to 33% in 2018 from 23% at present.

Eximbank renews state-subsidised refinancing loans

State export loan bank Eximbank has signed a co-operation agreement with 18 banks on the renewal of refinancing contracts for state-subsidised export loans. The amount made available was raised to EUR 1bn. In the last few years, 500 companies received subsidised loans from 21 participating banks, said Eximbank CEO Roland Nátrán, adding that there is no restriction on further expanding the framework. SMEs' share of total exports rose from 26.8% in 2011 to 30% last year, while exports also increased in that period.

The export refinancing scheme aims to boost the export sector and the competitiveness of SMEs and to promote job creation, said Economy Minister Mihály Varga. Exporters can benefit from the preferential rates offered by Eximbank, as the risk margin levied on the loans was kept at a favourable level of below 2% last year, he added. At an other event, Minister Varga said a persistently weaker HUF could considerably boost the number of export-focused SMEs. His remarks suggest that the government's stance on the Forint has changed.

Government may take on architectural work

The Chamber of Architects is hoping that the government will not implement its earlier decision according to which the architectural engineering work on large government projects must be done by state employees, chair-woman Etelka Pataky said. The chamber initiated talks with Prime Minister's Office head János Lázár on the details of the regulation. According to the government's plans, only state-owned architecture companies will be allowed to do work in the EU financed projects.

Events

CONSTRUMA 33rd International Building Trade Exhibition

Date: 2-6 April 2014

More information: <http://www.construma.hu/?nyelv=1>

INDUSTRY DAYS 12nd International Trade Exhibition for Machine Manufacturing & Welding Technology and International Industrial Automation Trade Exhibition

Date: 27-30 May 2014

More information: <http://www.iparnapjai.hu/?nyelv=1>