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Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

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Embassy activities

Embassy visit to Antipode Ltd
On March 26th ambassador Gajus Scheltema and Éva Szabó Trade Promotion Officer have paid a visit to Antipode Ltd in Szolnok, which is a full subsidiary of the Dutch furniture producer Leolux. Norbert van Megen , Managing Director since 2012, is based in the Netherlands and visits Antipode once a week. Antipode has 37 employees conducting the stitching work for Leolux. The company aims to expand in the near future. For more information, please, scroll down to Dutch presence in Hungary.

Ambassador visits Primagaz
On April 2nd Ambassador Gajus Scheltema together with Marina Varga Senior Policy Advisor and Éva Szabó Trade Promotion Officer have visited Zoltán Szirmai, CEO of Primagáz. The Dutch owner SHV bought Primagáz in 1992 in the course of the privatization of the utility sector. Since then Primagaz is a market leader in the Hungarian LPG market, representing about 40% of the supply of LPG products. Primagáz is currently looking for new market segments; it has recently opened an e-store which by now contains more than 1000 products.

Embassy visit to Ecorys
On 3d April DHoM Elzo Molenberg, Marina Varga Senior Policy Advisor and Éva Szabó Trade Promotion Officer have paid a visit to Ecorys Ltd. The company was established in 1995 as a daughter company of the Dutch-English owned Ecorys International BV. Since 2012, Krisztián Karácsonyi manages the real estate and urban development consultancy company in Budapest, which currently has 5 employees. Ecorys took part in the DISC-Dutch Initiative for Sustainable Cities project, a consortium member of 8 Dutch companies (Eurodite, Roeleveld-Sikkes, Bureau Buiten, Euricur, Twynstra Gudde, Grontmij, EUK-HIS), planning and executing urban development projects in Romania and Hungary, co-financed by the Dutch Ministry of Economy. Today, the company is co-ordinator of Budapest municipal projects fot the 2014-2020 period and among others also became project advisor for some Budapest districts as well as for Kaposvár town on county-level.

Visit of Dutch Laetus DPP-Drug Perfumery Platform to Budapest
The embassy co-organised a matchmaking event at the residence on April 16th to give the group of 35 Dutch directors the possibility to network with the members of Dutcham-the Netherlands-Hungarian Chamber of Commerce and Kozmos-Association of the Hungarian cosmetic, household cleanser,

maintenance, detergent and personal hygiene and home care industries and give an insight into the Hungarian pharmaceutical, cosmetics and perfumery sector. More information: http://hungary.nlembassy.org/

Budapest Automotive Fair

In May/June, the Embassy will present a market-study about the Hungarian automotive sector, which has grown significantly over the last years. The sector, already good for more than 30% of the Hungarian export-revenues and comprising of the car-manufacturers Audi, GM, Mercedes-Benz and Suzuki, offers increasing opportunities for the Dutch automotive supply industry. Therefore, the Embassy would like to raise the attention for this upcoming study, as well as for the Budapest Automotive Fair, which will take place in October 2015. A total of 40-60 m2 is available for hiring stands. With regard to the fair, the Embassy offers the opportunity to host a joint stand for Dutch companies that would like to participate in the Budapest automotive fair. For more info, please write to bdp-ea@minbuza.nl or call the Embassy at tel. nr. +36-1-336-6318.

EU relations

EU suspends advertising tax

The European Commission (EC) announced an in-depth investigation to determine whether Hungary's tax on advertising revenue is consistent with EU-rules on state aid. As the progressive tax places some companies at a disadvantage, the EC took the further step of prohibiting Hungary from applying varied tax rates to media companies until its assessment is finished. Companies are taxed depending on the amount of revenue, from zero for little income, to 50% of annual advertising revenue above HUF 20bn (EUR 66mn). The progressive rate of the tax is disproportially disadvantageous for larger media. A progressive tax on profits *"can be justified by the higher burden-bearing capacity of very profitable companies"* the Commission said in a statement. At this stage, however, Hungarian authorities have not presented any objective reason that would justify the progressive tax, the statement added. Competition Commissioner Margrethe Vestager said *"I welcome the signals from the Hungarian government that they intend to make changes to the advertisement tax. Our state aid investigation will look in detail both at how the advertisement tax applies currently as well as how it is amended, to make sure there is no unfair discrimination against certain media companies."* Prime Minister's Office leader János Lázár confirmed Parliament's economic committee that the government would amend the tax.

Tarlós secures HUF 340bn (EUR 1.1bn) EU funding

Budapest is set to receive HUF 340bn (EUR 1.1bn) in EU funding by 2020, lord mayor István Tarlós told Index. This sum does not include the HUF 23bn (EUR 70mn) for the acquisition of new trams and trolley-buses in an ongoing tender, he noted. The cabinet approved the framework funding proposals. City Hall has lobbied in Brussels and with the government to obtain EU funds in the coming years from the EU, in what Index described last year as a tug-of-war between Prime Minister's Office leader János Lázár and Tarlós. Lázár had proposed to scrap all Budapest-related development projects and channel the money to other investments in less developed regions. City Hall plans to draw on HUF 20bn (EUR 66mn) of EU funds to buy new carriages for the Pest-Buda metro line. There is HUF 45.5bn (EUR 151mn) available for construction of new tram tracks and HUF 28bn (EUR 93mn) for the replacement of waterworks pipelines.

Business environment / Legislation

Tax return system to be simplified

The National Economy Ministry is working on a plan to abolish the current system of tax returns for personal income tax for corporates and private individuals as of 2017. The state reform committee has not made a final decision on the matter yet, which would be the biggest modification in this area since 1988, because the plan needs to be clarified on several points. Economy Minister Mihály Varga has also confirmed in a radio interview in the morning that they are examining the possibility of changing the tax regime this way. In the meantime, it has also turned out the Tax and Customs Authority (NAV) will be deploying drones to combat cigarette smugglers.

ÁSZ uncovers flaws in tax collection

The State Audit Office (ÁSZ) has found serious deficiencies and flaws in the operation of tax authority NAV in the years 2009-14. During that period, the total amount owed to the tax office rose to HUF 2.261trn (EUR 7.5bn), but at the same time some HUF 3.8trn (EUR 12bn) of debt was deleted from its books as it either expired, was deemed uncollectible or part of it was forgiven. The NAV took no action whatsoever to collect some HUF 200bn (EUR 0.5bn) of unpaid taxes annually in 2009-13, the ÁSZ found. The lack of a unified accounting system impeded the collection of taxes and the infrastructure was not in place that would have allowed access to transparent and up-to-date data on claims. The lack of procedural guidelines on tax backlogs and enforcements resulted in different approaches taken by various departments of the tax office in such cases.

In addition, the report found that the NAV has not fully complied with legal regulations, which call for the inspection of the 3,000 largest taxpayers every three years. Internal guidelines were not in compliance with legal requirements, which meant that 6.7% of the largest taxpayers have avoided inspections. Tax revenues collected by NAV reached HUF 10.2trn in 2012, some 71% of the state revenue for that year, *HVG* writes.

Brokerage scandal prompts new legislation

In the wake of recent brokerage scandals of Questor and Buda-Cash exceeding HUF 200-300bn, Parliament approved amendments to legislation that broadens the scope of liability assigned to brokerages. The law on "*securing assets for the compensation of victims of brokerage scandals*", is intended to prevent "*the consolidation of companies affected by the brokerage scandal, cheating brokers, and company heads, owners, supervisory board members and certain auditors of the companies*" from concealing their assets, according to justification attached to the bill, news agency MTI noted. In accordance with the law, all contracts, on personal and corporate assets, signed since the outbreak of the scandals need to be reviewed. Assets could be frozen if the court deems that any of the contracts served to salvage assets.

Dutch presence in Hungary

Leolux furniture in Hungary

Formal Managing-Director Geert Ligtenberg established Antipode furniture factory in 2002 with 12 employees and became a full daughter company of Leolux BV in 2005.

The Leolux family business has been producing all its furniture in Venlo since 1934. The seating ideas – sofas, armchairs and (coffee) tables – are created by international freelance designers and built to order by craftsmen. A special dealer network, consisting of 600 members, is in charge of the marketing and sales of the furniture. In Hungary you can see and buy the collection in the Max City Center. The armchair 'Caruzzo' of the 2015 collection has recently won the prestigious Red Dot Award. Norbert van Megen was appointed Managing Director in 2012. He is based in the Netherlands and visiting the company once a week. Antipode considers CSR as an important issue by providing good working conditions to the employees, producing environmental-friendly and planning and executing social projects. More information: http://www.leolux.nl/

R & D & I / Creative Industries

Clinical tests high in Hungary

The annual average of Hungarians participating as patients in clinical tests is somewhere between 15,000 and 20,000 the chairman of the Association of Innovative Pharmaceutical Companies told Hungarian economic daily *Napi Gazdaság*. The ratio puts Hungary in the leading position in Europe, while globally, the country ranks fifth in terms of the number of clinical trial participants. According to chairman Zoltán

Jakab the home and foreign drug companies spend approximately HUF 80-90bn (EUR 266-300mn) annually on clinical trials in the country.

Business incubation in Szeged

The local council and the University of Szeged (South-Eastern Hungary) plan to establish a HUF 2.5bn (EUR 8.3mn) business incubator in the science park adjacent to a EU-funded superlaser centre, city mayor László Botka announced. The mayor said that the companies based in the 5,500 sqm incubator will be able to capitalize on research conducted at the superlaser centre. It is worth recalling that Hungary, Czech Republic and Romania won a joint bid for the EU's Extreme Light Infrastructure (ELI) project in 2009.

In Hungary, the University of Szeged is hosting the project which is expected to open new avenues to expose the secrets of matter on ultra-short timescales. The centre in Szeged is expected to be completed by the end of November, said ELI-HU managing director Loránt Lehrner. Approximately HUF 37bn (EUR 123mn) has been allocated for the first phase of construction, 85% from EU funds.

Mentor program for start-up launched by DesignTerminal

Design Terminal, aregular partner of the Embassy in the creative industry projects announced its second mentor programme. Out of the 70 start-ups applying to participate six had been finally chosen. These include: Do3D, Dori Tomcsányi, Paprikum, Studio Nomad, AP Faktura and November, the urban design institute announced. In the framework of the program, the enlisted entrepreneurs will participate in a professional fair which will give them exposure to networking opportunities and to determine how valid their products are in their chosen market. The program is being supervised by a professional team of ten mentors and professional consultants. The partners of Design Terminal include Assessment Systems, Hipavilon Nonprofit Kft. and lawfirm Kinstellar Ügyvédi Iroda.

Transport / Logistics

MÁV acquires used Austrian trains

Austrian state railway company ÖBB has delivered 10 used carriages to its Hungarian counterpart MÁV, which have undergone an overhaul and are ready for use. MÁV Start CEO György Záránd said Hungary agreed to buy 55 Lange-Schlieren trains with a maximum speed of 140kph from ÖBB after the Austrian company bought trains capable of 160-180kph.

After the reconstruction of lines, Siófok will be accessible by rail from Budapest in just over 70 minutes and Székesfehérvár in 39 minutes, Záránd said. Over the last three years, HUF 115bn (EUR 377mn) has gone into railway reconstruction projects, said Development Ministry state secretary László Tasó. Funding for these purposes will be lower in the coming years, but the upgrade of the Budapest-Belgrade line will have priority.

EKAER simplified

In accordance with a decree drafted by the Ministry of National Economy, large haulage companies will be able to apply for EKAER, a new electronic control system for road haulage companies, in a simplified procedure of reporting just three data instead of the standard 21, news agency *MTI* said. Along with postal services, the companies will now have to report only three figures, namely the tax numbers and addresses of the sender and the addressee, and the license plate number of the transport vehicle. The simplified procedure would become available for companies with at least HUF 50bn (EUR 166mn) in annual revenue in the last two years, and net sales of at least HUF 40bn (133mn) from self-manufactured products as of April, the decree stipulates.

Energy / Sustainable Energy

GVH approves power plants sale

The GVH has approved the sale of German company E.ON's two gas-fired co-generation power stations in Nyíregyháza and Debrecen to Veolia (former Dalkia), the competition authority announced on its website. The sales contract was signed on September 2nd , 2014.
The two power stations involved have not been operating since June 2013, due to high gas prices. E.ON has built two small heat generating units in the area to supply district heating to the two cities. With the purchase Veolia acquires the capacity to generate 760MW of heat and 160MW of electricity.

Bill provides exit for gas distributors
A bill filed by Fidesz MP György Balla paves the way for the expansion of the coming state utility company, Index reports. The bill regulates how gas distributors can leave regulated markets and transfer their obligations to Főgáz, the Budapest gas distributor recently taken over by the state.

MET to take over GDF's gas business
The competition authority GVH has approved Hungarian energy trader MET's purchase of the free-market gas division of GDF Suez Energia Holding Hungary, the authority told MTI.
The companies' combined market share will not allow them to distort the market, GVH affirmed. MET will take over the gas division from GDF on July 1st, 2015. GDF will continue to distribute gas on the regulated retail market in six counties via its subsidiary Égáz-Dégáz.

EU takes action on energy directive
The European Commission referred Hungary to the European Court of Justice (ECJ) for failing to adopt the EU's energy efficiency directive into law by the June 5, 2014 deadline. Hungary is the only country to be referred to the ECJ for non-transposition of the directive. Moreover, the EC has asked the Court to set a EUR 15,444 daily fine until the directive is incorporated into Hungarian law.

Environment / Water Management

HUF 150bn (EUR 500mn) for flood protection
The government will spend nearly HUF 150bn (EUR 500mn) on flood protection projects in the next seven years, National Water Management official Benedek Göncz told reporters. The larger part of the sum will be deployed along the Tisza river, where three reservoirs aimed at reducing flood levels will be created.

Ministerial Commissioner for the Implementation of the Danube Region Strategy István Joó emphasised in his address at a conference that Hungary's most important goal in the macro-regional cooperation is to significantly increase the number of international projects led by Hungarians or with pronounced Hungarian participation in the areas coordinated by Hungary within the fields of water quality, flood protection and energy, respectively.

Commissioner Joó explained that so far the Strategy has been under preparation whereby the participating countries had laid down its foundations, and the results of their work had been integrated into various development programmes to achieve the greatest synergy possible. Talking about non-EU countries, he emphasised that Hungary will do its best also within the framework of the Strategy to promote the integration efforts of these countries: "*this is why we launched a training programme on energy in Moldova and will start the training of flood protection specialists in Bosnia and Herzegovina by the transfer of Hungarian knowledge*".

Macroeconomy

S&P upgrades Hungarian debt

International credit-rating agency Standard & Poor's has upgraded its rating of Hungarian sovereign debt to BB+ with a stable outlook, just one level below investment grade. This first upgrade by any major rating agency after 12 years brings S&P's assessment in line with those of Moody's and Fitch, which both have Hungary at just below investment grade. S&P said Hungary's vulnerability to external shocks has decreased, helped by the conversion of foreign-currency loans into forints. Hungary's economic indicators have also improved, the agency said, adding that the state debt could fall to 70% of GDP by 2018.

S&P forecasts annual GDP growth for Hungary of 2.5% on average in the years 2015-17, up from its earlier estimate of 2%. It is also positive that the government signed an agreement with the EBRD in February to gradually reduce the bank tax from 2016, S&P emphasised. In response, the Economy Ministry said further upgrades will occur in the coming months and Hungarian debt will probably return to investment grade, based on the performance of the economy. According to the analysts the first upgrade to investment grade by other agencies can come in the autumn at the earliest, but probably not this year.

Bretton Woods ranks Hungary ninth for investment confidence

Ranked as ninth, Hungary scored well on the list of 46 countries recommended for investment by New Jersey-based research firm Bretton Woods, Deputy State Secretary for Taxation and Financial Affairs László Balog told in a press conference. László Balogh said this ranking is especially noteworthy as Hungary follows traditional investment hotspots such as Ireland, the United States or China. It is for the first time that Hungary has made it into the top ten as a CEE region country, he stressed. As László Balog emphasised, market movements and changes in CDS premia also indicate that market confidence in Hungary has improved compared to perceptions prevalent 12 or 24 months ago. On the other hand, Balog called it a critical deficiency that all three major credit rating agencies have been overlooking these economic achievements and they have failed to incorporate them into their evaluations.

Economic policy

First impacts of closing on Sunday

Turnover in shopping malls featuring movie theatres dropped to less than half of a normal traffic on the first Sunday the government's no-work Sunday law came into effect, business daily *Napi Gazdaság* reported. On March 22nd , the first Sunday after new legislation came into effect banning work for trade employees on the last day of the week and restricting opening hours. In shopping malls that do not feature movie theatres less than 10% of the stores were open on March 22nd , while in malls with cinemas 17-26% of the stores opened. These included cinemas, pharmacies, catering units or shops on less than 200 square metres where services were provided by the owners or their family members. According to experts at PwC, the legislation has a number of internal contradictions, and those attempting to abide by the law have raised many concerns. Furthermore, the legislation is not entirely harmonized with the current commercial laws that underpin the sector's regulations, the experts said.

What makes the issue more contentious is that many of the restrictions have yet to be clarified, the experts added. These include e-commerce, home deliveries and commerce, which takes place outside the shops. The experts classified wages as another crucial issue, as workers within the retail sector who worked on Sundays received 50% higher wages on that day. Although extended working hours will give them an opportunity to earn above-average salaries during evening hours, employees will still see a drop in their monthly wages.

As to the further impacts, parliament approved an amendment to the Sunday closing law, ordering retail units at petrol stations to remain closed if they themselves do not sell fuel. The modification specially targets Spar that had opened express units at OMV filling stations, trying to utilise the exception given to filling stations *Népszabadság* underlines. In addition, chains that conduct both retail and wholesale activities will have to stay closed as well. This modification will hit the cash and carry chain Metro, the newspaper notes.

Monetary and Budgetary policy

2016 budget to be ready in April

The government will file the 2016 budget bill in Parliament by the end of April, the Ministry of the National Economy confirmed. PM Viktor Orbán announced on March 9th that the 2016 budget will be filed before the end of the spring session and passed before Parliament's summer recess in mid-June. The ministry maintains that such an early passage of the budget will enhance predictability and consistency. The document outlines the following details: the reduction of state debt will remain a priority, the budget will be designed to raise employment and economic stability as well as keep the general government deficit under 3% of GDP. The ministry said that the government will submit its convergence plan to the European Commission in April, simultaneous with development of the national budget.

MNB cuts base rate to all-time low

The MNB's monetary council cut its 2.1% base rate by 15 basis points to a record low 1.95%, rather than to 1.9% as had been expected by most analysts. Having declared last July that the rate would stay at 2.1% until the end of 2015, MNB governor György Matolcsy adopted a flexible approach saying rate cuts would continue for as long as necessary, depending on the development of inflation. The present rate cut is possible because inflation remains below the MNB's medium-term target of 3.0%, he added. February data showed negative inflation of 1.0%. Given the present low interest rate, a two-year rate-cutting period would not be realistic, Matolcsy said in answer to a question. In its latest quarterly inflation report, the MNB has in-creased its 2015 GDP growth target to 3.2% from 2.3% forecast in December. The MNB cut its 2015 inflation target from 0.9% to 0%. The new report envisages 2.6% inflation in 2016 and 2.5% GDP growth.

The monetary council discussed the medium-term inflation target but left it at 3%, deputy governor Ádám Balog told reporters. However, the MNB is relaxing its inflation targeting policy, and will allow a 1% tolerance band around the 3% figure, Balog announced, saying that this will give the MNB the freedom not to react to smaller shocks. The imported negative inflation – due to falling oil prices and deflation in the EU – pushed inflation in Hungary lower than forecast earlier. External monetary conditions, such as the ECB bond programme launched in early March and the US Federal Reserve postponing its interest hikes, were also favourable for a rate cut.

Employment

KSH reports decline in unemployment

The average unemployment rate over the three-month period December 2014-February 2015 was 7.7%, down from 8.4% one year earlier, the Central Statistics Office reported. The number of employed in the same period rose from 4,013,000 to 4,124,000. Due to seasonal patterns, the unemployment rate rose to over 8% in early 2015, but later it will drop to under 7% in the second half, analysts expect. As it was the case previously, the increase in employment is partly due to the expansion of the government's public works programme.

Hungarians not hopeful of retirement

Most Hungarians, 77%, believe that they will have to work beyond the pension age, Dutch labour market consultancy Randstad found in a recent international survey of more than 400 adults. The retirement age ranges from 62.5 to 65 years, depending on the cohort. Only one in six believe that they can retire only after the age 70 and only 61% said that they will retire at the age of 65. Approximately 70% of Hungarians stated their intention to put at least 5% of their income toward retirement, giving Hungarians the lowest propensity to save for retirement of the 34 countries polled. Only 34% of the Hungarians queried agreed that saving for a pension is their own responsibility and not that of their employer's, the lowest ratio of all countries surveyed. Approximately 47% of respondents believe that employability is their own responsibility and not that of their employers`, also the lowest percentage among countries polled according to Randstad survey.

Events

CSR market

Date: 4 June 2015

KÖVET Association and the Hungarian National Employment Agency organise the most prestigious CSR fair of the year in cooperation. The CSR event, organised at the fourth time in 2015, ensures the platform for small, medium and also large enterprises to share their CSR solutions and experiences with the visitors. The embassy will be an exhibitor at the fair and will join the panel discussion on the responsible employment. The event will be held at Millenáris in Hungarian, more information to be read at: http://www.kovet.hu/en