



Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

October-November 2014

Embassy news

Integrated Logistics solutions

On October 16th 2014 the *Netherlands-Hungarian Chamber of Commerce, the Hungarian Logistics Association* and *the Embassy* organised a logistics seminar. Representatives of the Port of Rotterdam, Budapest Airport, Akzo Nobel, Agility Logistics, EKOL, Integrail and CBS Property presented detailed insight for some 80 participants into the integrated logistics solutions concerning rail, road and air transport in Hungary and Europe, hopefully leading to new business prospects.

Meeting representatives of Prowise CEE Ltd

On October 21st, the representatives of Prowise CEE Ltd paid a visit to the Embassy. This Dutch company invented a cloud-based education software which is used by 40% of the schools in the Netherlands. The company is planning to introduce this product on the Hungarian market as well.

Seminar water management Danube region in Budapest

The Embassy, in co-operation with the Hungarian General Directorate of Water Management organised a Danube region seminar on water management on 17-18 November, last. The most important players of the Dutch water sector, including the Netherlands Ministries of Infrastructure and Environment and Economic Affairs participated.

The event is perceived as the start of a future-focused approach, based on regional cooperation between authorities and companies from the Danube countries and the Netherlands with regard to water management issues.

The seminar provided insight into the development potential of the Danube region in the areas of flood risks, water management and urban waste water. Besides, possibilities for cooperation within the EU Danube strategy, cooperation possibilities on third markets and joint education programmes were mapped out.

High level bilateral exchange of views

On several occasions over the last two months, the Embassy initiated an exchange of views with high ranking Hungarian, Dutch government officials and CEO's of the largest Dutch investors, about the Hungarian inward investment strategy and the Hungarian investment climate. The constructive dialogue will continue.

DACS festival turns into great success

The series of events called 'DACS' [dʌtʃ], organised by the Embassy, offered a wide range of activities. Between 3-12 October the Netherlands was the Guest of Honour at the Budapest Design Week (BDW), which offered a.o. an exhibition and a lecture titled "The Designer As Strategic Planner" by star designer Jurgen Bey at MOME (Hungarian Design Academy); a workshop between the prestigious Sandberg Institute and students of the TU Budapest; Dutch-Hungarian showroom collaborations and visits of prestigious Dutch institutions of creative industries participating at a conference on design eco-systems.

The Dutch exhibition 'Intelligence of Everyday Life', which was the official opening of BDW, presented a selection of outstanding projects from recent years and was opened by Ambassador Gajus Scheltema at Várkert Bazár..

Business seminar on 'How to enter the Dutch market successfully'

The Hungarian Chamber of Commerce and Industry in cooperation with the Hungarian Business Network in the Netherlands has organised a business seminar entitled '*How to enter the Dutch market successfully*' on November 27th. In his opening speech, György Kárpáti, Vice President of the International Committee of the Chamber underlined the importance of developing international trade relations. The Hungarian audience was informed about the Dutch economic environment and cooperation possibilities by Elzo Molenberg, Deputy Head of Mission of the Embassy of the Netherlands. The bilateral economic relations and practical information concerning the market entry were highlighted by Péter Szabó, Trade Attaché of the Embassy of Hungary. Andriy Selifonov, Business Development Manager of TMF Netherlands BV has briefed the participants about company setup and taxation issues in the Netherlands. The second part of the seminar was dedicated to share best practices on the Dutch market by on the one hand an importer of Hungarian wine, Cisca Ansem (Hegyem Ltd) and on the other hand a Hungarian Export Manager, Dezső Bíró (Vajda Papír Ltd). The seminar was closed by Beáta Rakos-Szegleti, Executive of the Dutch-Hungarian Chamber of Commerce, presenting its services. More information: <http://www.mkik.hu/hu/kulpiaci-tevekenyseg/cikkek/irany-hollandia-uzleti-szeminarium-november-27-en-77772>

Dutch presence in Hungary

The Unilever Hungary won the Business Ethics Award

The Business Ethics Awards were handed over on November 19th during a gala dinner, following the Hungarian Sustainability Top Conference. This year, the Unilever Hungary won the multinational company category. With this award, the jury recognized the company's exemplary business practices and efforts for the sustainable development of the society. Since 2000, the Business Ethics Award were given to companies that are serving as models for other companies, in terms of responsible business operations, while significantly contribute to the upgrading of the domestic business as well.

Sustainability is a strategic issue for Unilever; the company in its 2010 Sustainability Plan committed that beside doubling its turnover will reducing the company's environmental burden by half, and increase its positive contribution to society by 2020.

Transport/Logistics

Cluster formed to promote e-vehicles

Economy Minister Mihály Varga announced the launch of the Jedlik Ányos cluster, aimed at promoting the spread of electric and hybrid vehicles. Three of the leading companies on the Hungarian e-vehicle scene, GreenGo Car Europe, Evopro Holding and Elektromotive Hungary, will form a cluster, supervised by the National Innovation Office. Under the Jedlik Ányos programme, named after the Hungarian inventor of the dynamo, the government is honouring EU objectives and supporting innovative companies and the development of a suppliers' base in the sector, Varga added. He said the government is considering the introduction of green license plates specifically for electric and hybrid cars, and plans to provide tax breaks and other

benefits, such as free parking, discounts on toll fees and the use of bus lanes. Hungary has the potential to become the regional leader in the spread of electro-mobility, Varga stressed, although Hungary is four years behind Western Europe in this respect. The cluster is open to new members, perhaps offering an interesting prospects for Dutch bicycle producers.

Energy/Sustainable energy

Orban on the EU energy policy

The European Union's new climate and energy strategy will not put a great burden on Hungary's budget, Prime Minister Viktor Orbán said in Brussels after an EU summit. At the summit, it was key for Hungary to prevent any decision that would thwart the government's plans to reduce energy prices and go on with its utilities cut programme, he said. Hungary had also aimed at keeping it a national competency for each country to decide how they wish to reduce environmentally hazardous emissions or choose energy sources to cover domestic demand, he said, adding that those goals had been met. PM Orbán added that nuclear energy developments could still go ahead. The EU strategy does not imply strict emission reduction criteria for industries with the highest carbon-dioxide production to prevent those sectors from moving to other countries where there are no such requirements, Orbán said, and referred to car or tyre making plants in Hungary.

In a separate event, Deputy State Secretary for Environment and Energy issues, Ajtony Zoltan Hevesi recently presented the main elements of the Hungarian Energy efficiency strategy. These are: 70% of the 4,2 million buildings in Hungary, as main CO2 exhaust, need renovation and energy efficiency adaptation. This needs serious governmental consideration, as at the moment there is financial support for the adaptation for only 276.000 houses.

Gas supply to be secured in the Winter

Hungary's gas supply would be secure even in a worst-case scenario, the national development ministry said referring to the Energy Security Stress Tests of the European Commission. The Commission said that if Russian gas shipments to Europe stopped entirely, Hungary's reserves could still ensure household supplies, with limitations stipulated by law, the ministry said. Hungary currently has more than 4.1 billion cubic metres of gas available to consumers, and the stock of reserves is still growing. The level of reserves is now at 10% above the total capacity of storage facilities Hungary had six years ago, the ministry said in a comment on the Commission's findings.

Hungary, as a result of its relatively well-connected gas network, has an important role to play in terms of receiving gas from or via Central European countries and in supplying member states and Energy Community Contracting Parties to the south and east. On that basis it should sign agreements with bordering countries related to security of supply emergencies, in order to maximise the amounts of gas it can receive from well-supplied neighbours on the one hand, and ship onwards to neighbours facing shortfalls, on the other, the European Commission recommended. Moreover, Hungary should also increase transparency, the Commission said. Recent interruption of supplies to Ukraine raised questions and complaints relative to its sudden and perceived disproportionate nature. In addition, the role of Gazprom filling the Hungarian storage under special licence-free regime should be clarified, the Commission added.

Meantime State energy company MVM confirmed that Russia's Gazprom is storing large quantities of gas in Hungarian facilities as a precaution against any disruption in its supply. MVM has agreed to store 700 million cubic metres of gas for Gazprom, of which 135 million has already arrived. As a result, Hungary will have an additional 10% more gas in storage ahead of the winter, MVM added.

Slovakia pipeline transferred to MNV

State asset manager MNV will buy 49.98% of Magyar Gáz Tranzit, the builder and future operator of a gas pipeline connecting Hungary and Slovakia, for HUF 3.75bn (EUR 12.3mn), from state energy company MVM. The other owner of the pipeline, the project manager subsidiary of state development bank MFB Invest, is expected to sell its stake to the MNV as well. These transactions were required by the EU, which ordered separate ownership of gas infrastructure and gas transport. The Interior Ministry will control Magyar Gáz Tranzit. The 111km pipeline is not yet operating and has missed a target date to begin testing. It will be ready for transports next year, with a capacity to import 4 million cubic metres of gas annually and to export 1.6 million cubic metres.

Environment/Water Management

Danube Region Strategy discussed at the water seminar

In the Dutch-Hungarian water management seminar held on November 17 István Joó, government commissioner for the Danube Region Strategy told the audience that Hungary's aim is to maximise its participation and leading role in the number of international projects in the period of 2014-2020 for the benefit of the whole region. The first years will be spent on mapping out the biggest challenges and finding partner countries. To achieve this goal, the DRS has a big scale of sources ranging from National Operational Programmes, EU Central programmes (Horizon2020, Life+) and EU Regional Cooperation Programmes (4 Interreg, 2 Transnational, 7 Transboundary), EIB loans and services, through other sources (TAF, START) and Twinning programmes.

Research/Innovation/Creative industries

Tender to design new conference centre announced

State assets manager MNV called an open public procurement tender for the plans of a new Budapest conference centre to be built in the 9th district, the tender invitation published in the official public procurement gazette shows. The centre will include a big conference hall that could seat 4,000-5,000 people, two big section halls with a capacity of 1,200-1,500 each and several smaller section rooms with a combined capacity of 2,000, exhibition space of 6,000-8,000sqms and parking space for 450 cars.

New tenders announced by the R+D Fund

Similar to recent years, the Research and Technology Innovation Fund announced tenders for subsidies again through "*Research and Development Excellence and Competitiveness contracts*". The aim of the subsidy scheme is to enhance tenders that are significant on the national economy and important for R&D in the health-, energy- and control engineering industries, which contribute to empower research and development activity of Hungarian enterprises, to create new workplaces and encourage research and development cooperation. A total of HUF 7.2bn (EUR 24mn) is available through the subsidy scheme, divided equally between the three sub-programmes. The minimum non-refundable subsidy is HUF 500mn, the maximum HUF 2.4bn (EUR 7.8mn). Only consortiums are allowed to apply. Consortiums may consist of a maximum of five members, comprised of enterprises, research organizations and non-profits.

EU relations

The first EU tenders announced

The Economy Ministry is inviting applications for five of the nine possible EU subsidy programmes, with total funds of HUF 58bn (appr. € 200 mn.) available, Economy Minister Mihály Varga said. HUF 8.5bn (€28mn) is now earmarked for technology modernisation projects and HUF 1.5bn for export promotion, rather than HUF 5bn for each as initially planned. Varga admitted that the government is taking a risk in announcing the tenders before the programmes are endorsed by the European Commission in December. A capacity expansion

subsidy is available in manufacturing for SMEs, some HUF 10-100mn per project, covering up to 50% of the costs. Furthermore four tenders are still available from the 2007-13 budget period.

EU fund tender applications will be simplified

The government will make it easier for companies to apply for EU funds in the 2014-2020 budget cycle, and a faster transfer of funds will also be facilitated, PMO state secretary Nándor Csepregy announced. All documents must be submitted electronically in the future, allowing companies to monitor the progress of their applications within the state administration online. Companies will need to submit fewer documents, as matters related to land registry, company registration and tax matters will be handled by the state. Simplified procedures will apply for investments of less than HUF 300mn (€ 1 mn.). Payout of winning applicants will also be eased, Csepregy added.

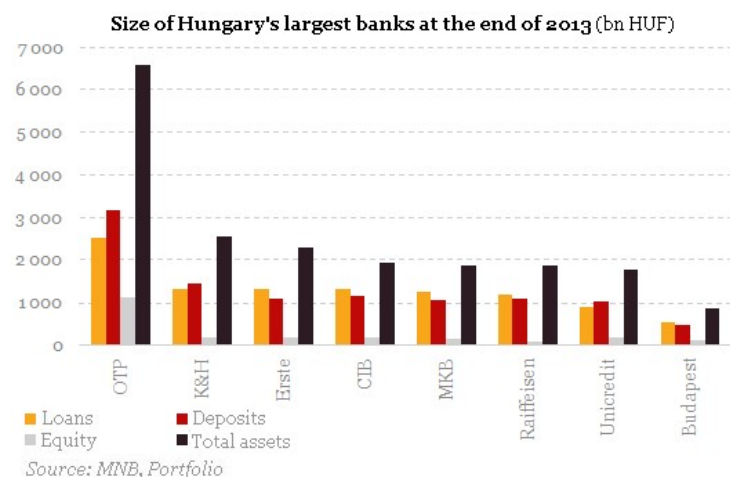
EC starts procedure against land law

The European Commission decided to launch infringement proceedings against Hungary in connection with its abolition of “pocket contracts” by which foreigners rented or leased Hungarian land. The EC did not object to the restrictions on the purchase or use farmland by foreigners, but said the Hungarian legislation “*restricted the rights of cross-border investors in a way that may violate EU law on free movement of capital and freedom of establishment. Any restriction to these basic Treaty freedoms must be duly justified and comply with the principle of proportionality*”. It added “*even though member states are permitted to set their own rules governing the system of property ownership, this must be done within the limits of EU law*”. The Commission officially asked Hungary to submit comments about the legislation within two months. It is not known how many farmers are affected by the law. According to official data released by Austria, some 200 Austrian farmers cultivate 200,000 hectares of land in Hungary. They had paid in advance for usufruct rights – the right to use the land and to profit from it – but the law passed last December stripped them of these rights without compensation as of May 1, 2014 and abolished the previously announced transitional period of 20 years.

Macroeconomy/Economic policy

Budapest Bank to be sold

GE Capital agreed to sell Budapest Bank to the Hungarian state, local newspaper *Népszabadság* reported. A formal government decision is the only step that needs to be taken before the Hungarian state signs a contract with GE Capital, the financial business of General Electric, on the acquisition of Budapest Bank, the paper said. Five big banks will remain in Hungary after a consolidation on the market, National Bank of Hungary managing director Márton Nagy predicted recently at a conference.



As it can be seen from the chart, Budapest Bank is the smallest of Hungary's largest banks. By acquiring BB the government can get one step closer to its goal of boosting Hungarian ownership in the local banking sector to 60% (and over). It should be also mentioned that recently EBRD President has Suma Chakrabarti expressed concerns over such an explicit targets of "desirable" state ownership.

Budgetary policy

The 2015 Budget submitted

This year the Hungarian government submitted to Parliament the draft bill on 2015 Budget only on October 30 due to the local elections. At the start of the general debate on the budget, Economic Minister Mihaly Varga named three general goals of the 2015 budget: (i) to improve the economic situation, (ii) to increase employment and (iii) to support Hungarian families.

In contrast to the earlier projections, the 2015 budget aims at budget deficit target of 2.4% of GDP (under the EU's ESA 2010 methodology) which is smaller than the 2.8% foreseen by the government in the medium-term Convergence Programme submitted to the EC in April. The target compares well with a planned deficit of 2.9% of GDP this year. The draft 2015 budget targets a drop in public debt from a projected 76.3% of GDP at the end of 2014 to 75.4% of GDP by the end of 2015. The budget figures are based on assumption of 2.5% GDP growth. This already represents a marked slowdown from the 3.2% that the government expects in 2014. The underpinning macroeconomic scenario calculates with a 1.3% increase in employment, 1.8% average annual inflation and external financing capacity equivalent to 8.4% of GDP. Sectoral taxes, such as those on advertisers and banks, would remain in place in 2015, while plans for a single corporate income tax rate (compared to the current 10% and 19% rates) are only for 2016.

The revenue side is based on considerably improved VAT collection which has to increase by 8% next year. The main factor is to build on the claimed success of recent measures such as the online monitoring of retail cash registers. Among other steps, for 2015 the government prescribed more frequent VAT filing requirements for large businesses and newly founded companies (which it says are more likely than others to be involved in VAT fraud). It also plans to introduce an electronic shipment tracking system that it hopes will identify and/or discourage attempts at cross-border VAT fraud.

Taxes paid by businesses are planned to drop overall by 1.2% compared to 2014. Within this overall item, revenue from the general corporate tax is set to fall by 5%, as the government's ongoing household debt relief programme will allow banks to reclaim corporate taxes that they paid previously on what are now ruled "unfair" profits.

Employment

Jobless rate drops to 7.4%

The unemployment rate fell to a seven-year low of 7.4% in July-September from 9.8% one year earlier, the Central Statistical Office reported. The number of jobless fell to 333,000 from 435,000 in the summer of 2013. The number employed averaged 4.18 million, an increase of 4.8%, or 192,000 from one year earlier. The employment rate among the 15-64 age group increased to 62.8% from 59.2%. Analysts also pointed to the rise in job creation in the private sector, especially in construction, industry and service sectors. Employment state secretary Sándor Czomba said that the number of participants in public work schemes will rise by 50,000 to 250,000 from July 2015. Average gross wages in the period were HUF 248,942 (appr. € 750) in the private sector, and HUF 163,057 (appr. € 530) in the public sector, both up 4.5%. Wages paid to those on public works schemes are weighing down the rise in wages.

Leaving Hungary to work abroad

An estimated 350,000 people left Hungary to live and work abroad between 2009 and 2013, according to a Central Statistical Office study. The data collected at the start of 2013 shows that 80% of the migrants were under 40 years old. Around 30% of them were university graduates, which is well above the Hungarian average of 18%. The three most popular destination countries were Germany, Austria and the United Kingdom. The two-year research was carried out under the arrangements of the SEEMIG project supported by the European Union's South-East Europe Programme.

Business Environment

Business climate unchanged

Hungary has remained in 54th place on the World Bank's 2015 Doing Business list, which assesses the business climate of 189 countries based on ten criteria, unchanged from this year. Singapore retained its leading ranking for the ninth consecutive year. Hungary was ranked the lowest in the region, behind Romania, Bulgaria and Macedonia. Hungary fell from 24th to 57th in the sub-index for the time and the cost of starting a new business. It is interesting to note that the country improved its position in the index measuring taxation. Meanwhile in the region, the Czech Republic moved to the 44th place from the 75th in last year's survey, Slovakia to 37th from 49th, Poland to 32th from 45th, and Romania to 48th from 73th. The survey investigates how the regulatory environment makes the life of businesses easier or more difficult in terms of starting a business, dealing with construction permits, getting credit, getting electricity, registering property, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and it also analyses labour market regulation.

Tax rules mean fewer new companies

Some 25,000 companies have been removed from the official register in the first nine months, while the number of new company set-ups totalled 20,649, website feketelista.hu ("blacklist") reports. This is the first time since September 2008 that new company formations have out-paced delisted ones. Administrative measures by the tax office have helped to filter out investors who previously exploited company registration rules when setting up new businesses, feketelista.hu adds.

Events

CEE THE OPPORTUNITY-The Growth Seminar for The Netherlands and Central and Eastern Europe

Date: 16 December 2014

More information on Dutcham website: <http://dutcham.hu/post/events/367-cee-the-opportunity-the-growth-seminar-for-the-netherlands-and-central-and-eastern-europe>