



# Hungary Economic News Letter

**Embassy of the Kingdom of the Netherlands**

**September 2014**

**Dear readers,**

On September 29<sup>th</sup> last, Mr. Elzo Molenberg, our new Deputy Head of Mission was introduced to the Dutch business community during a *Netherlands-Hungarian Chamber of Commerce* Meet & Greet event at the ambassador's residency, together with Orsolya Szíjjártó, the newly appointed ambassador of Hungary to the Netherlands. Please read more on the FB page of the Embassy and on the website of BBJ:

[http://www.bbj.hu/budapest/new-diplomats-to-strengthen-hungarian-and-dutch-business-ties\\_86121](http://www.bbj.hu/budapest/new-diplomats-to-strengthen-hungarian-and-dutch-business-ties_86121).

**Your opinion counts!**

The Royal Netherlands Embassy would like to inquire if you are pleased with the present format and content of this Economic News Letter. We would be most grateful if you can let us know if you:

- miss certain type of news items
- would skip certain news items
- experience the news letter too long / too short
- have any other suggestions.

Please send your opinion to: [bdp-ea@minbuza.nl](mailto:bdp-ea@minbuza.nl). We will do our utmost to include your wishes.

**Legal service**

Over the last few weeks the Royal Netherlands Embassy registered several cases in which the Hungarian National Tax and Customs authority NAV started prosecuting amongst others Dutch enterprises with regard to the issue of transfer-pricing. In co-operation with one of the enterprises we have been able to identify an effective and efficient legal counselling service, which resulted in already one mutually acceptable verdict. If your company experiences related problems, please turn to the Royal Netherlands Embassy, we might be able to put you on the right track. The Royal Netherlands Embassy is also pleased to draw your attention to 3 major events Embassy:

**Logistics seminar**

The Netherlands-Hungarian Chamber of Commerce together with the Hungarian Logistics Association and the Royal Netherlands Embassy jointly organised a Logistics Seminar featuring integrated logistics solutions on 16<sup>th</sup> of October. Please read more about this well attended and welcomed event on page 7 of this newsletter and the Dutcham website: <http://dutcham.hu/post/events/340-logistics-seminar-16-10-2014>

## **Hungarian-Dutch Joint Water Conference**

The OVF-General Directorate of Water Management and the Royal Netherlands Embassy in Budapest will organise an expert-level seminar, focusing on water management in the Danube region on 17-18 November, next. In this event that aims to renew Hungarian-Dutch co-operation in the water sector, relevant players of the Dutch water sector will participate, as well as relevant government institutions and enterprises from Hungary and all neighbouring countries. For more information, please scroll down to page 7.

## **DACS, Hollandia, királyság!**

The Royal Netherlands Embassy in Budapest, co-operating with renown cultural venues in Budapest, organise a series of Dutch cultural activities between 15 September last and 30 November, next. Please find detailed information under "Events" at page 7 of this newsletter and on the DACS-website: [www.dacs.hu](http://www.dacs.hu)

**Elzo Molenberg**  
Deputy head of Mission

**Marina Varga**  
Sr. Policy Officer

**Éva Szabó**  
Trade Prom. Officer

## *Dutch presence in Hungary*

### **Online broker Degiro now in Hungary**

Dutch online brokerage Degiro is introducing its services in Hungary from October 8, founder Niels Klok told reporters. Degiro offers a simple trading platform, along with transparent and cheap prices for small investors, who also want access to more sophisticated products such as options. Degiro started its international expansion in 2013 and is now present in 13 countries including Poland and the Czech Republic.

Klok aims to capture 25% of the market share within two years, when, he hopes, Degiro will be the leading online brokerage in Europe. That objective would require 12 mn. deals per year, meaning a minimum 500,000 in Hungary, Klok calculated. As Degiro aims to open a market for those who cannot obtain financial products directly, Degiro is not really aiming to compete with incumbents but creating a new market segment.

## *Macroeconomy*

### **S&P does not improve Hungary's rating**

In line with the consensus estimate, Standard & Poor's Ratings Services affirmed its 'BB/B' long- and short-term foreign and local currency sovereign credit ratings on Hungary on 19 September. The ratings remain constrained by the country's external position and the government's foreign exchange exposure on its own stock of debt, which it is gradually reducing. S&P especially sees Hungary's medium-term outlook in a gloomy light and made several critical points about government measures.

S&P considers that unpredictable policymaking, an expansive public sector, a regressive and overly complex tax framework, an unprofitable banking system, and a shrinking population will hold back Hungary's economy. As to budgetary consolidation, although the chief priority in fiscal policy is to keep the deficit below 3% of GDP while maintaining a stable general government/GDP ratio, S&P sees evidence that the gradual rise in quasi-fiscal activity poses an additional long-term risk to the public balance sheet. Such activities include recent state purchases and financial support for domestic banks, including the savings cooperative system – Takarékbank - and MKB Bank, as well as state purchases of controlling stakes in strategic companies. These purchases include the 1.5% of GDP stake purchase in the MOL oil and gas group in 2011 and last year's 0.9% of GDP acquisition of E.ON's Hungarian gas distribution network.

With regard to other rating agencies, any upgrade from "junk" category is unlikely to materialize before next summer, as the agencies will want to wait for the completion of

the FX loan dispute and the release of all the data for the 2014 public debt results and 2015 deficit implementation. "We expect the rating reviews to remain neutral until then," analysts at Bank of America-Merrill Lynch's London-based research unit said.

### **State utility company to start operating by March**

A state public utility holding company, possibly based on Budapest gas distributor Főgáz, will most likely start operating in March 2015 at the latest. Prime Minister's Office (PMO) Minister János Lázár entrusted PMO state secretary Zsuzsanna Németh with organising the company. The new state company will operate on a multi-level structure; however, the exact details are not clear yet. The most probable candidates for the organization at the top are the state-owned Hungarian energy group MVM and the Hungarian Development Bank (MFB).

Market players agree that this will be a major milestone in the process of strengthening the state's hold on the energy sector. The establishment of a huge state-owned non-profit holding company would permanently restructure the whole market. Initially, the company would distribute electricity, gas, and heating. Later it would add water supply, sewage, and garbage collection. By making the new company non-profit, the government aims to restrict profit making on the provision of its services, and as such, restrict the costs for the general public. It should be noted that 2013 earnings reports in the sector, show that universal service provision is not a successful business venture. Whereas companies posted annual revenues to the tune of several tens of billions of forints, only one of them managed to remain in the black (GDF Suez). According to calculations of Portfolio.hu, the provision of national level universal services lead to losses of HUF 14.3bn (almost € 50mn) on the electricity market and to losses of nearly HUF 27bn (€ 90mn) on the natural gas segment. From this it would follow that the state will have to inject tens of billions into this company to keep it operating.

### *Monetary policy*

#### **MNB doubles lending for growth**

The monetary council of the Hungarian National Bank MNB doubled the total funds available for its Funding for Growth programme, increasing the amount from HUF 500bn (€ 1,6bn) to HUF 1 trillion (€ 3.2bn). Under the scheme the MNB provides zero-interest refinancing to banks so that they can lend to SMEs at a rate not exceeding 2.5%. MNB noted that it even considers to raise the amount available to HUF 2 trillion.

### *Budgetary policy*

#### **FX loans to be converted next year**

The conversion of foreign-currency loans into forints may begin in the spring of 2015 after the relevant legislation is passed this year, Economy Minister Mihály Varga told an annual economists conference in Nyíregyháza. A great deal of risks will be phased out of the financial system as a result of the conversion, he added. Varga estimated that banks will have to pay HUF 900bn (€ 3bn) to clients as a result of the Supreme Court's (Kuria) ruling in June 2014 against their unilateral changes to loan contracts. To ease some of this burden, the cabinet is planning to review the bank tax and the financial transaction tax after all money has been repaid and loans converted into forints, which would allow banks to write off some of their losses, Varga said. Foreign-currency lending will not disappear completely, he noted, as only foreign-currency mortgage loans will be phased out. However, stricter conditions will apply in non-forint lending.

Speaking of the government's economic policy targets, Varga said the economy, interior and agriculture ministries will be in charge of trimming the black economy, estimated at 20-30% of GDP, to around 7-8%, the same level as in Austria. The share of the central redistribution to GDP should be also reduced, the minister added.

## *Employment*

### **Unemployment at 7.6% in summer**

The unemployment rate was 7.6% over the June-August period, down from 9.9% one year earlier, and 7.9% in May-July, the Central Statistics Office announced.

Unemployment has not been so low for six years, and is close to pre-crisis levels, Napi Gazdaság points out. The national labour office NMH reported that the number of registered unemployed was 401,500 at the end of August, down 18.4% from one year earlier. The number of employed was 4,158,000, up by 177,000. Recent economic indicators suggest further job creation, in line with government targets the National Economy Ministry commented. As seasonal jobs end in the autumn the unemployment rate will increase slightly in the rest of the year, but will probably remain below 8%, analysts believe.

### **Wage differences increase further**

Income inequality in Hungary is on the rise as the salary gap between top executives and lowest-paid employees can be as high as 2,500%, research led by Trenkwalder reveals. According to a recent report, foreign companies pay on average 10% more than their Hungarian counterparts. Companies participating in the survey are planning 3-4% wage increases on average this year.

## *Business environment*

### **New guide on real estate investments**

"A guide to real estate investment in Hungary", the new publication of JLL Hungary, highlights that since 2013 numerous macro-economic indicators have improved and this has started to translate into real estate investment activity. The new publication is a practical guide providing investors with in-depth information about the latest real estate trends, macroeconomic environment, tax and legal conditions in Hungary (in cooperation with DLA Piper) as well as governmental aids offered for foreign investors.

Budapest has asserted itself as a major location for Business Process Outsourcing (BPO) companies and multinationals to set up Shared Service Centres (SSC). BPO/SSC occupiers, along with the Information and Communication Technology (ICT) sector are driving demand for office space in the capital city. More than four-fifths of Hungary's SSCs are located in Budapest, but Debrecen is becoming more and more popular for investors.

Despite the increasing share of national investors in the past years, the real estate investment market in Hungary remains highly international with foreign investors typically representing more than 80% of investment volumes, the study notes. Furthermore, the real estate market in Hungary is standardized and supported by a robust and reliable land registry system. For instance, lease agreements are of an international standard, Euro-based with annual rent uplifts in line with inflation. In retail, lease contracts with turnover rent provisions and turnover reporting are the norm, the guidebook notes. Thus no surprise that the Hungarian Service Centre Outsourcing Association projects 20% growth in the sector in the next two years, possibly creating 1,800 jobs.

## *Transport/Logistics*

### **Budapest Airport bound for record year**

Passenger traffic at Liszt Ferenc International Airport was up 9.2% year-on-year in August, operator Budapest Airport announced. The airport handled 943,582 passengers last month, as both the number of flights and tickets sold went up. Budapest Airport expects a record 9 million passengers for the full year. London remained the most popular destination for outbound travel, followed by Paris, Frankfurt and **Amsterdam**. Meantime in Debrecen, mayor Lajos Kósa greeted the 100,000th passenger to pass through Debrecen airport this year. After the ceremony the first charter flight of Russia's

Utair airlines arrived from Moscow, transporting Russian tourists to the spa in Hajdúszoboszló every third week. The airport operated by Xanga group aims to host 150,000 passengers in 2015. Wizz Air operates a regular flight to London Luton, while five charter companies are present: Bulgarian Air Charter, Travel service, Freebird, Germania and Nouvelair of Tunisia.

### **BKV to get electronic ticket system**

An electronic ticket system for Budapest public transport will be in place by 2017, mayor István Tarlós announced. The winner of the tender, German company Scheidt und Bachmann, signed a contract with the city of Budapest. Tarlós said 79 companies had shown interest in the tender. About 800 entrance gates will be placed at metro stations and validating equipment will be installed on 2,500 buses and trams. The system will be based on cards that can be refilled by means of the internet or mobile phones. The EBRD is extending € 54.5mn in loans for the project, to which the city will add HUF 5.5bn (€ 17.5mn).

### **BKV hopes to rent buses**

Budapest transport company BKV has announced a tender for the hire of 68 buses for more than ten years. There are two interesting clauses, Népszabadság observes. If the BKV is not able to pay, or if the city of Budapest objects to the tender, then the BKV can cancel it within 90 days without any penalty.

The BKV made no comment as to why it has announced the tender if its finances were not secured in advance. The BKV hoped to hire 150 buses in June, but city council approved only 75. Of the 68 vehicles, 46 will be articulated buses with diesel engines and five will be electric buses.

## *Energy/Sustainable energy*

### **South Stream buys Nabucco plans**

Déli Áramlat, builder of the Hungarian section of the South Stream gas pipeline, has purchased route design plans from Nabucco Gas Pipeline International, which is closing down, *Világgazdaság* reports. The acquisition of Nabucco's environmental impact studies and landscaping plans will speed up the South Stream project. From its scheduled opening in 2017, the South Stream will have the capacity to deliver 30 billion cubic metres of gas to Hungary annual, compared to 20.5 billion from the existing pipeline from Ukraine, *Világgazdaság* underlined. The full capacity of the South Stream will be reached by 2018 which will then ship an annual 63 billion cubic metres of gas.

### **Hungary fills up the gas reserves**

Hungary's gas stores contained 4 billion cubic metres by early October, reaching almost 65% capacity, the state-owned Hungarian Electricity Works (MVM) said. Levels are up about 38% over last year's highest point, MVM noted. MVM said the latest element in its reserves policy was a logistics contract with Gazprom Export. This allowed MVM to keep up to a further 700 million cubic metres of gas in the stores. The arrangement would facilitate Russian gas exports to Europe in the event of problems in shipping gas via Ukraine. The Russian gas stored in Hungary may be made available to Serbia in future, or Serbia would itself store 150 million cubic metres of gas in Hungary, based on a long-term contract with Gazprom. A decision must be made this month, and Serbia "*would receive gas at a friendly price, without additional taxes or fees*", Energy Minister of Serbia Antic said in Budapest. Note, that Hungarian state gas storage facilities have a total capacity of 4.2 billion cubic metres, but at present hold only 2.2 billion cubic metres for domestic purposes.

In terms of interconnectivity it is worth while mentioning that the 111 km pipeline connecting Hungary and Slovakia, which has been already inaugurated officially, is not yet operating and has missed a target date to begin testing. It will be ready for transports early next year, however, with a capacity to import 4 million cubic metres of gas annually and to export 1.6 million cubic metres.

# **EC and Hungary agree on use of EU-funds 2014-2020**

The European Commission (EC) approved its Partnership Agreement with Hungary, making € 21.9bn available to Hungary in the 2014-2020 budget period. Of the total, € 15bn will go to Hungary's less developed regions – effectively all of the country outside Budapest and Pest county. Hungary will receive an additional € 3.5bn for rural development projects. The agreement sets out priorities for Hungary of enhancing the business sector's competitiveness, boosting employment and improved energy efficiency. Related tenders will be published on the website [www.palyazat.gov.hu](http://www.palyazat.gov.hu) as of the beginning of October 2014. Note that the new operational programmes of the 2014-2020 period and the related abbreviations are slightly different from the previous period. As to the pending payments, since the EC suspended payments to Hungary on April 15<sup>th</sup>, last, the EC has now approved part of the nearly € 1 bn. worth of EU-funded development projects, invoiced ever since by the Hungarian government. This payment indicates that the EC has approved the framework of an overhauled and centralised Hungarian management and distribution system for EU funds.

Invoices submitted by Budapest to Brussels after 14 April 2014 and invoices approved by the European Commission			
Programme	Total ERDF funding requested from EU m EUR	EC-approved and transferred funding (at average EUR/HUF of 314.50) bn HUF	Date of approval date
EEOP	161.9	50.9	22/08/2014
WPOP	6.4	2.0	15/09/2014
SGPOP	19.1	6.0	15/09/2014
CTOP	6.6	2.1	15/09/2014
NHOP	20.7	6.5	12/09/2014
TOP	420.1	EC received invoice, transfer in progress	
SIOP	65.6	20.6	12/08/2014
NGPOP	28.4	9.0	12/09/2014
IOP	6.4	2.0	14/08/2014
STOP	12.2	3.8	15/09/2014
EAOP	10.5	3.3	14/08/2014
SRPOP	169.3	53.2	05/09/2014
SRPOP	3.2	1.0	05/09/2014
<b>total</b>	<b>930.3</b>	<b>160.4</b>	

Source: Prime Minister's Office, Portfolio

Operative Programme Abbreviations	
ARDOP	Agricultural and Rural Development Operational Programme
CHOP	Central Hungary OP
CTOP	Central Transdanubia OP
EAOP	Electronic Administration OP
ECOP	Economic Competitiveness Operational Programme
EDOP	Economic Development OP
EEOP	Environment and Energy OP
EPIOP	Environmental Protection and Infrastructure Operational
ERDF	European Regional Development Fund
HRDOP	Human Resource Development Operational Programme
IOP	Implementation OP
NGPOP	North Great Plain OP
NHOP	North Hungary OP
RDOP	Regional Development OP
SGPOP	South Great Plain OP
SIOP	Social Infrastructure OP
SRPOP	State Reform OP
SRPOP	Social Renewal OP
STOP	South Transdanubia OP
TOP	Transport OP
WPOP	West Pannon OP

## Events

### **Logistics seminar**

Date: 16 October 2014

The Netherlands-Hungarian Chamber of Commerce together with the Hungarian Logistics Association and the Royal Netherlands Embassy jointly co-organise a Logistics Seminar featuring the theme of integrated logistics solutions in practice. Guest speakers from prestigious companies, representing the road, rail and shipping segments are asked to share with you their newest business models and solutions during a nice boat trip on the Danube.

### **Hungarian-Dutch Joint Water Conference**

Date: 17-18 November 2014

OVF-General Directorate of Water Management and the Royal Netherlands Embassy in Budapest will organise an expert-level seminar on water management in the Danube region. Centred around the theme "water", the seminar covers Regional Danube Basin development case-studies in the areas of the implementation of the EU Floods Directive, the EU Water Framework, the EU Urban Waste Water Treatment Directive, The Danube Region Strategy, Possibilities of Hungarian-Dutch joint actions in third countries and Joint educational programs for young Engineers.

Part of the seminar is dedicated to match-making and networking for companies during a boat trip on the Danube. In case you would like to participate in the seminar, please send an e-mail to [bdp-ea@minbuza.nl](mailto:bdp-ea@minbuza.nl)

### **DACS, Hollandia, királtság!**

Date: 15 September - 30 November 2014

As an initiative of the Royal Netherlands Embassy in Budapest, in collaboration with renowned cultural venues, a series of Dutch cultural activities will take place, like the grand-scale exhibition "Rembrandt and the Dutch Golden Age" at the Museum of Fine Arts. In the past few weeks, the Holland Baroque Society performed impressively at the Liszt Academy of Music, and the Netherlands was present as Guest of Honour at the Budapest Design Week. Next to contemporary culture, programmes centred around on economic and social issues are also on the palette. [www.dacs.hu](http://www.dacs.hu)