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Hungary Economic Newsletter

Embassy of the Kingdom of the Netherlands

September 2015

Embassy activities

Dutch biking experience shared

On October 8, DHoM Elzo Molenberg hosted a meeting with some stakeholders of the Hungarian cycling community to share their views and the expertise with William Nedelpert, the representative of the Dutch Cycling Association (Fietsersbond) and Vice President of the European Cyclists' Federation. Mr Nederpelt also gave a presentation on cycling as one of the most sustainable forms of transport at the SUSCO Budapest conference, organised by Antal Jozsef Knowledge Centre.

Incoming DSI-Dutch Sports Infrastructure mission to Hungary

Between 7-9 October, a Dutch business delegation, led by Judith van Akkeren, Senior Project Manager at FME-Dutch Employers' organisation of the Technology Industry has paid a visit to Budapest to present their products to potential Hungarian business partners. This visit was a follow-up to a Hungarian business delegation'visit in 2013. The event was opened by Sándor Fegyverneky, Counsellor to the Government Commissioner Special and Olympic Projects, the planned Hungarian sports infrastructure projects were presented by István Kovács Project Manager of priority projects and were followed by the presentations of the 7 Dutch companies, a matchmaking event and a visit to the Groupama Arena.

Multimodal Logistic Boat Seminar

On October 1, the second Multimodal Logistic Boat Seminar was held by the Netherlands-Hungarian Chamber of Commerce and the Embassy of the Kingdom of the Netherlands in Budapest, in order to show the diversity of the industry amounting to 8% of the GDP and showcase examples about international cooperation. This year the guest country was Slovenia. The exclusive event provided the opportunity to the 75 guests to gain first-hand information from several foreign logistic experts about the Dutch, Hungarian and Slovenian logistic developments, industry innovations and collaborations.

The seminar was opened by dr. László Baján, Head of Civil Aviation and Inland Navigation Department of the Ministry of National Development. Gajus Scheltema, Ambassador of Kingdom of the Netherlands, Ksenija Škrilec, Ambassador of the Republic of Slovenia and finally Balázs Erényi, Board member of the Netherlands-Hungarian Chamber of Commerce also welcomed the guests. Both ambassadors highlighted the importance of logistics for their countries both of them being small transit states similarly to Hungary. Besides the company representatives of the Port of Rotterdam, Port of Koper, Exact, Raben, Trade-Trans Adria, Saigo Logistic and M27 Absolvo, the Deputy Mayor of Debrecen and the President of the Assocation of Slovenian Freight Forwarders also presented their case studies.

Embassy visit to Reining

On September 8, ambassador Gajus Scheltema and Éva Szabó Policy Officer Trade have paid a visit to Reining Hungary. As the Managing Director and owner Gerrit Hes infomred us, Reining Transport as a family company was founded in 1923 by Fre Reining in Groningen and in 1989 sold to the Royal Wagenborg Group. Following a Management Buy-out in 2014, the company became again independent. It is today operating from 2 European locations (Groningen and Budapest) with an own fleet of 300 trucks, 375 employees and a 100.000 m2 warehouse capacity.

The company is specialized in volume transport, warehousing and groupage services (in Benelux, France, Germany and Switzerland) and has its clients in the following sectors: packaging materials, hygiene and automotive industry. Reining has established its Hungarian subsidiary in 2003, located in Budapest-Csepel with a warehouse. The staff are operating the transport process of Planning, Customer Service Desk, Driver Management and Fleet Management. As the office location is close to the M0 highway, Reining also provides crossdock facilities on its Csepel location. More information: www.reining.eu

Dutch presence in Hungary

Spar Hungary launches HUF 4bn (EUR 12.8mn) investment

The Hungarian unit of retail chain SPAR laid the cornerstone for a HUF 4bn (EUR 12.8mn) hypermarket investment in the city of Érd, near Budapest. SPAR was established by Adriaan de Well in 1932 in the Netherlands where the headquarters are still located. He was inspired by a simple yet powerful philosophy – independent wholesalers and retailers can achieve more by working together than working alone.

The Interspar unit under construction is expected to be one of SPAR Magyarország's biggest, with a total area of 7,000 sqm. It is due to open in the spring of 2017 at the latest, and would employ a staff of approximately 100. SPAR Magyarország is contributing HUF 400mn (EUR 1.3mn) to the upgrade of a motorway exit near the store, MTI reported. Érd Mayor András T. Mészáros said the local government would get 540 sqm in the store for municipal services and other tasks. It is worth recalling that Hungary introduced a ban on the construction of shopping centres bigger than 300 sqm from 2012, and the area threshold was bumped up to 400 sqm when the ban was extended into 2015. Businesses may still apply to a special committee for an exemption.

SPAR expects to return to profits on rising revenues this year, but that will largely depend on the outcome of the dispute between Hungary and the EU on the food inspection fee, according to managing director Gabriella Heiszler. The retailer incurred an HUF 18bn (EUR 57mn) loss in 2014 on HUF 400bn (EUR 1.2bn) revenue, which is expected to rise to HUF 410bn (EUR 1.3bn) this year. The management has taken "*strong operative measures*" to make a profit this year, Heiszler added. This is necessary, because current legislation stipulates that food retailers that record two consecutive years of losses will lose their license. The Spar group, which celebrates 20 years in Hungary this year, operates 351 supermarkets, 32 hypermarkets and 59 franchise partners. It controls 12-13% of the food retail market.

The government signed a strategic cooperation agreement with Unilever

A strategic cooperation agreement was signed between the Hungarian government and Unilever, the Dutch-English Fast Moving Consumer Goods company in Nyírbátor on September 23, where the company inaugurated a EUR 3.4mn investment, part of a larger EUR 7mn programme. The investment boosts capacity at this plant, one of Unilever's three production units in Hungary. Unilever has a long-term commitment to the market and consumers, and sees Hungary as a strategic production centre, said regional CEO Harm Goossens.

Transport|Logistics

Port of Rotterdam's new innovation: Rotterdam Port Connector

The website Rotterdam Port Connector is the online way to bring potential international clients into contact with Rotterdam's port business community. Businesses with a logistics need have the posssibility to post their request online. The request can relate to transport, storage or handling or a specific service and is immediately received by over 500 service providers who are affiliated with the Rotterdam Port Promotion Council (RPPC): businesses which can meet this need. The requesting party remains anonymous and they decide for themselves when to contact the service provider. *'In this way, we bring supply and demand together online. No other port has such a platform,'* explains RPPC director Marjolein Warburg. The website has already received a substantial number of inquiries and has even resulted in new business.

In addition to posting requests, the Rotterdam Port Connector offers the companies invited to an RPPC gathering the chance to meet the Rotterdam service providers on the spot. '*A great instrument that extends our service and something the business community can use to its advantage.'* The RPPC was founded in 1933 and acts as an intermediary for its members: companies which are active in and for the ports of Rotterdam, Dordrecht and Moerdijk. For further information, have a look at the website: www.rottterdamportconnector.com and view the animations on: https://www.youtube.com/watch?v=vQOOd2-A-HE

Government building electric car stations

The government will install 150 electric car charging stations alongside motorways and in larger towns so that Hungary will have full coverage for the environmentally friendly vehicles, Economy minister Mihály Varga announced. Varga officially launched the **Ányos Jedlik Programme**, as it is called, as he opened a charging station in front of the ministry building on Szemere utca in downtown Budapest. The ministry will develop tax incentives, to be filed in Parliament in the autumn, for reducing the price of electric cars. The government will purchase about ten electric cars for itself, Varga said. The process for issuing permits for electric cars will be cut from the present 200 days, Varga promised. Under an EU directive, 1.5% of cars in member states must be powered by electricity by 2020.

Bicycle path construction resumes

Some 530km of bicycle path were built in Hungary during 2010-14, and the government has committed HUF 10bn (EUR 32mn) to further developments, Development Ministry state secretary László Tasó said while opening European Mobility Week. Construction of bicycle paths will begin at 80 sites. This year, some 177 municipalities are instituting a car-free weekend this Saturday and Sunday, 32 more than last year.

Energy|Sustainable energy

MVM embarks on large-scale solar power plant construction

MVM is to build one of the largest solar power plants in Central Europe, with 7 MW capacity in Pécs. The HUF 3.5bn (EUR 11mn) investment, sprawling on a 20-hectare site provided by the city, will be completed by December. Some 140,000m2 of solar panels will be installed and integrated into the national grid. The annual production of solar energy will cover the full-year energy needs of 1,600 homes. Hungary has made a commitment to have solar energy account for 15% of total usage by 2020. Pécs mayor Zsolt Páva highlighted the co-operation between the local government, the main contractor MVM and Pannonpower, which owns the thermal power station, adjacent to the investment.

Environment|Water Management

Római Dam will be 5km long

The city of Budapest public procurement committee selected designs from Mélyépterv Komplex for a new water barrier at the Római Part recreation area in the Third District, *Népszabadság* reports. A bid from K+K Környezetgazdálkodási was excluded on formal grounds. Mélyépterv's bid, the most expensive, received 10 points from the committee, that from Keviterv Akva got 5.5

points. This is the second tender for the work, as the city asked for proposals for a barrier five kilometres in length, rather than three as in the first tender. The city paid HUF 66.2mn (EUR 208,000) for plans in the first tender and now estimates the costs at HUF 250mn (EUR 786,000). As Parliament has declared the project to be of extraordinary importance, it does not need approval by the city council, and ordinary construction permit procedures will be waived.

Research|Innovation|Creative industries

National Nuclear Research program receives HUF 1.9bn (EUR 6mn) funding

The consortium carrying out the National Nuclear Research program has received HUF 1.9bn (EUR 6mn) of funding from the National Research, Development and Innovation Fund, Attila Aszódi, government commissioner for the upgrade project of the Paks nuclear power plant announced. The consortium includes the Hungarian Academy of Sciences's Energy Research Center and Nuclear Core Research Centre, the Budapest University of Technology and Economics' Nuclear Technology Institute and the National Research Institute for Radiobiology. The nuclear research program includes 43 research topics in the three main areas of research and infrastructure development, the modelling of nuclear power plants' operations and the management of nuclear waste and spent fuel rods.

EU relations

Hungary to receive EUR 500mn to stimulate innovation

The European Investment Bank (EIB) announced that it is to provide Hungary with EUR 500mn, the first tranche of an approved loan of EUR 1.5bn to revitalise innovation and the economy. The loan will co-finance priority projects receiving support from the European Regional Development Fund (ERDF) and the European Social Fund (ESF) within the 2014-2020 programming period, such as research and development, higher education, and information and communication technology (ICT). The bank's stated objective is to help the country move into the era of the knowledge economy.

Finance will also go to green projects tackling climate change, such as renewable energy, energy efficiency and sustainable tourism. The EIB financing is being granted in the form of a structural programme loan, designed to provide funding for large-scale projects. The bank says, however, that the loan may also be used to finance smaller schemes, which, due to their limited size, would otherwise not qualify for direct EIB financing. It can be recalled that earlier this year, the bank provided EUR 500mn for co-financing projects in Hungary under the country's Integrated Transport Development and Environment and Energy Efficiency Operational Programmes and the Connecting Europe Facility.

Hungary received HUF 8trn (EUR 26bn) from EU

Hungary has completed the pay-out of some HUF 8.2trn (EUR 26bn) funding available under the 2007-13 EU budget period, after HUF 1.4trn (EUR 4.4bn) was extended to businesses in September alone, Prime Minister's Office chief János Lázár announced at a press conference. Recapping the results, Lázár said EU-funded projects lifted GDP by 0.1% on average, but in the last 12 month, as pay-out was accelerated, they accounted for 1% of GDP. Contrary to earlier fears, the utilisation rate of the EU funds of the previous financial framework will be close to 100%, possibly one of the highest rate in the region.

Hungary received more than four times as much funding from the EU than it contributed during 2007-13, according to a new report from the State Audit Office (ASZ). However, the influx of EU funds was not enough to narrow the gap between the per capita GDP in poorer regions such as Northern Hungary and Central Trans-Danubia and the more developed Central Hungary region. However, Hungary's four other regions closed the gap in development, the ÁSZ found.

Macroeconomy

Trade surplus set to break record

Hungary is set to post a record trade surplus this year, Economy Ministry state secretary Béla Glattfelder forecast. Exports were up 5.4% year-on-year, compared with a 13.9% rise in June, while imports saw 2.3% growth only. The surplus for the first seven months rose to EUR 4.9bn, up by EUR 1.2bn from the same period of 2014. Improving terms of trade are due to lower energy prices, but also higher output in vehicle manufacturing led to the widening of the trade surplus, analysts said. The full-year figure is set to rise from last year's EUR 6.3bn to EUR 8.5bn this year, analysts of Takarékbank project. Import growth spurred by rising household consumption will be offset by lower gas and oil prices. The latter alone could help Hungary's trade balance by EUR 2.5bn, observers note.

Economic policy

Government plans infrastructure fund to maintain growth

The government will set up a new state investment fund for infrastructure projects as it is examining all possible measures to keep economic growth sustainably above 2%, Prime Minister's Office leader János Lázár announced at a conference organised by business news website Portfolio. The state development fund for infrastructure will assist home construction and the expansion of the electronic infrastructure, including broadband internet services, Lázár added. The fund will also support the 100 or so large companies deemed to be of national significance, which fall outside the scope of EU financing guidelines. Lázár said the government will grant energy saving funds to public institutions, but not to households. To compensate the Central Hungarian region, which is disqualified from receiving EU funds due to its relative high level of development, the government may separate Budapest from Pest county from 2021, even if that entails reshaping the administration of the county system. Lázár said the agreement with the EBRD that set out targets for increased lending by of banks, signed early this year, needs to be revised.

MNB scraps funding programme

NHP+, the spin-off of the National Bank's second funding for growth scheme launched earlier this year with HUF 500bn (EUR 1.5bn) to help higher risk SMEs access preferential loans, has attracted little interest due to high administrative burdens, MNB deputy governor Márton Nagy admitted to the government daily Magyar Idők. For this reason, the MNB decided that funds unused under the NHP+ scheme, totalling HUF 250bn (EUR 800mn), can be reallocated to the original scheme. Under the programme, the central bank provides zero-interest refinancing to banks which lend to SMEs, at rates not exceeding 2.5%.

The MNB will phase out the lending programme next year and will issue notifications about the changes later in November, Nagy said. MNB governor György Matolcsy and the head of the Banking Association disagreed at a recent financial conference on whether banks should be extending more loans. The financial sector must slowly regain its leading role and start lending, Matolcsy said, as the time when central banks actively intervene in the markets is coming to an end. In response, president of the Banking Association and head of UniCredit Bank Mihály Patai said lending can rise only in countries where banks can make a profit, and Hungary is not in that category. Banks cannot be blamed for not increasing their lending, as there was no profitability in the sector, he said, adding that the majority of banks are loss-making and only a few have managed to grow or break even.

Monetary and Budgetary policy

2015 budget to be modified

A bill on amending the 2015 budget has already been sent to the Budget Council for evaluation, Economy Ministry deputy state secretary Richárd Adorján announced. The changes will increase the budget's extraordinary reserves by HUF 60bn, made up of HUF 30bn for managing the refugee situation and HUF 30bn for other purposes. The government has already spent HUF 100bn from this reserve this year, most notably HUF 29bn on building the fence on the border with Serbia. The bill will create a new special reserve, which could be increased if the refugee crisis so requires, Adorján added. The HUF 1bn special reserves will be set up in the Defence Ministry chapter.

As to the 2016 budget which had passed in the summer, substantial modifications are not on the agenda, the government underlined. The Budget Council said it has no fundamental objections to the amendment proposals, as both income and expenditure will be increased by HUF 61bn. However, the council advises discipline in budget expenses, especially due to the unpredictable costs of the migration crisis.

ÁKK promotes domestic financing

Households have purchased tens of billions of government securities since the eruption of the brokerage scandals earlier this year, György Barcza, head of state debt manager ÁKK, told Magyar Hírlap. If the trend continues, households will own 20% of all government bonds by 2018, he added. The decline in foreign-denominated debt and the subsequent rise in sales of forint-denominated securities has reduced annual debt service costs from 4% of GDP in 2010 to 3.5% in 2016. At present foreign-currency debt accounts for 33% of the total. "*My goal is to bring this down to 10% within the foreseeable future*," Barcza added.

The rise of domestic bond markets has facilitated the shift to locally-denominated debt, reducing these countries' vulnerability and improving their monetary and fiscal policies. Outstanding debt issued in local currency was 62% of the total in Hungary. In a previous report, Morgan Stanley noted that the conversion of foreign currency debts had removed structural anomalies from economic policies.

Employment

Number of job seekers at low point

The number of registered job seekers was 339,000 in August, down 6.4%, according to figures from the national employment service NFSZ. This is the lowest level in the number of job seekers since 2002. Last month, some 50,000 job openings were announced, most of them – 33,000 – in public works schemes or other state-supported forms of work. As to the number of employed, it reached 2,921,600, a 2.9% rise from one year earlier.

Emigrating nurses on the rise

An increasing number of nurses are emigrating from Hungary, primarily for Germany and Austria, *Világgazdaság* reports. Sweden and Norway, which are short of 6,000 nurses, are hoping to attract experienced nurses with offers of free language courses, return flights to Hungary, and monthly salaries of up to HUF 1.2mn (EUR 3,900) that is seven to eight times more than the Hungarian salaries.

Real wages continue to rise

Real wages have been rising for 31 months, the Economy Ministry noted as the Central Statistics Office released data showing 3.1% year-on-year growth in July. The average gross monthly wage rose to HUF 244,171 (EUR 768), while the average net wage was HUF 159,933 (EUR 503), both up 3.1%. The wage hike at military services and the additional bonus paid to social workers had an important impact, the Central Statistics Office pointed out. The large wage differences between sectors are not good, Economy Ministry state secretary Sándor Czomba commented. The average salary in the financial sector is more than HUF 500,000 (EUR 1,572), Czomba highlighted. Moreover, the figures provide little information on the black economy, especially in retail and catering, where workers are officially paid the minimum wage, but are actually paid more in cash.

Business environment

Hungary drops in competitiveness list

Hungary slipped two places to number 63 on the 2014-15 Global Competitiveness Index, based on a report drawn up by Kopint-Tárki, the *World Economic Forum* (WEF) reports. Hungary's ranking has been hovering around 60th place for years. As in recent years, the main problems identified were a poor technological background, unstable and unpredictable economic policy, corruption, bureaucracy and high taxes. The level of schooling is also below the world's best. Hungary has huge income disparities and the country cannot keep skilled workers at home, the WEF report noted. Hungary's advantages are its location and the relative good health of the population. The low level of customs and tariffs is also a positive, but that comes with the country's EU membership, Kopint-Tárki notes. On the positive note, setting up a business has become easier, according to the report.

More bars and restaurants closing

The number of bankruptcies and liquidations was highest in the catering sector this year, in terms of the procedures per companies in the sector, according to consulting firm Bisnode Magyarország. Some 4.5% of all restaurants, bars and pubs closed down in the first half, after a 2.5% drop in 2014. The average rate of company shutdowns was 2.3%.Of 24,000 companies in the sector, 2,000 may wind up operations by the end of the year if current trends continue, the consulting firm noted.

Black market gauged at 22% of GDP

The illegal economy in Hungary equates to 22.1% of GDP, similar to other countries in the region, according to a survey of 20 countries by Randstad Holding. About 10% of employees, a total of 400,000, work illegally in Hungary, as they are not registered.

In checks of 9,738 companies this year authorities found that 62% failed to comply with labour rules. Repeat offences for SMEs result in a fine of anywhere between HUF 30,000 (EUR 100) and HUF 20mn (EUR 64.000), as well as exclusion from public procurement tenders and state subsidies.

Legislation

IFRS to become standard in Hungary

International financial reporting standards (IFRS) will be adopted in Hungary in three phases, according to a bill posted on the government website. Companies whose shares are listed in the European Economic Area and use IFRS accounting methods may submit IFRS results to Hungarian authorities from January 1, 2016. The above companies, as well as banks and financial institutions, must submit IFRS accounts in Hungary from January 1, 2017. Exceptions will be made for savings co-operatives and financial institutions with total assets of less than HUF 5bn (EUR 16mn) until the start of 2018. From 2017, insurance companies may also opt for IFRS. The bill also modifies the tax law, defining taxes according to IFRS categories.

Events

Amsterdam International Water Week - Integrated solutions for a circular economy and resilient cities

Date: 2-6 November 2015
Organisers: *NWP-Netherlands Water Partnership, RAI Amsterdam, IWC conferences and IWA-International Water Association*
The Amsterdam International Water Week (AIWW) is the platform for new alliances and fresh ideas: connecting industry, science, business, policy and technology. The event crosses borders between water and sanitation, deltatechnology, food, agriculture, finance and governance. Thus bringing together a unique mix of professionals conducive to the transition to a circular economy and resilient cities. More information about the programme and registration:
http://internationalwaterweek.com/programme/aiww-conference/
Aquatech Amsterdam is the world's leading trade exhibition for process, drinking and waste water. The exhibition is a unique concept in Europe with a 100% focus on water, that attracts over 18.500 visitors and 750+ exhibitors every two years. More information and registration:
http://www.aquatechtrade.com/amsterdam/