



Hungary Economic Newsletter September 2016

Embassy of the Kingdom of the Netherlands

Embassy news

Minister Koenders in Budapest

On October 4 the Dutch Minister of Foreign Affairs, Bert Koenders visited Budapest and held talks with his Hungarian counterpart Péter Szijjártó. At the joint press conference, Minister Koenders emphasised the long history of Dutch-Hungarian relations, and the importance of shared European values such as unity, solidarity and respect of rule of law. They discussed the future economic cooperation, given that the Netherlands is an important investor in Hungary and bilateral trade relations are dynamic.

Csongrád county visit

On September 21, the Deputy Head of Mission, Elzo Molenberg and senior policy adviser, Marina Varga visited the County of Csongrád. After having a meeting with the deputy mayor of Szeged, Pál Szentgyörgyi and the representatives of the Chamber of Commerce of Csongrád County to discuss possibilities of the future cooperation, the embassy representatives visited two successful Dutch companies in the region. The company **LC Packaging** located in Mórahalom is a Hungarian plant of a Dutch market leader worldwide in packaging materials, while **Grow Group Magyar-Holland Palántanevelő** kft in Felgyő is a front runner in raising vegetable plants. CEO Judit Török and co-owner Ludo Pissens of LC Packaging and Ferenc Dobos on behalf of Green Grow Palántanevelő Kft discussed their various experiences of the business climate in Csongrád as well their future development plans. Although business is flourishing, both entrepreneurs experience the disadvantages of a narrowing Hungarian labour market.

EU relations

Hungary has to implement cost reduction rules for more broadband

The EC sent reasoned opinions to several EU Member-States including Hungary, to implement measures of cost reduction in deploying high-speed electronic communications networks. These rules seek to increase the sharing and re-use of existing physical infrastructure across various sectors (energy, transport, etc.) and should be cut by up to 30% the cost of rolling out high-speed internet. Cost reduction rules support the strategic connectivity objectives that the European Commission has recently proposed: by 2025, all main socio-economic drivers, such as schools, universities, research centres, transport hubs, all providers of public services such as hospitals and administrations, and enterprises relying on digital technologies, should have access to extremely high connectivity. As an interim target, 5G should be commercially available in at least one major city in each EU Member State by 2020. Member States had until 1 January 2016 to transpose the Directive into national legislation.

Hungary slides further back on the WEF competitiveness list

Hungary has placed 69th in a competitiveness rating of 138 countries compiled by the World Economic Forum (WEF) this year, slipping from last year's 63rd place when a total of 140 countries were evaluated, according to reports. The Global Competitiveness Index (GCI) combines 114 indicators which are grouped into 12 pillars. Hungary is among the worst in eight sub-categories, four of which are in the institutional pillar. Based on the current report, the biggest defect in Hungary's institutional system and the gravest problem to the country's competitiveness, is that some privileged businesses enjoy a major advantage over their rivals when it comes to government decisions. Government policymaking is not transparent, respecting the rights of the owners is problematic and there are also problems with the corporate code of conduct. Furthermore, the Hungarian government does not sufficiently incentivise scientific research and the purchase of modern technologies, although the quality of local technology companies is above the world average, the research shows. One of the main consequences is that the technological capacity of Hungarian companies is lagging behind the international level, although they might be able to catch up to the current technological standard by purchasing know-how or licences, even if not by carrying out developments on their own.

As to the Netherlands, it continues its climb toward the top of the Index, improving its score and rising by one spot to the 4th position. This is the result of small improvements across all three sub-indexes, with a solid and even performance across the pillars including top 10 ranks for infrastructure, health and primary education, higher education and training, goods market efficiency, technological readiness, business sophistication, and innovation. The Netherlands scores especially high on the quality of its scientific research institutions (4th) and close links between universities and the private sector (5th). Success stories of social innovation are particularly frequent in the Netherlands.

Venture capital investments up in EU

A total of HUF 7.9bn (EUR 25mn) of venture capital was invested in 59 Hungarian companies in the second quarter, the Hungarian Venture Capital Association reported. The average size of investments in April-June was HUF 151mn (EUR 0.48mn) and out of the 18 active venture capital funds, 14 were related to the Jeremie programme financed by the European Union. As the Jeremie programme ended on May 31 this year, venture capital funds taking part in the scheme had to invest these funds by that date *Világgazdaság* notes. The total Jeremie funds available to Hungary amounted to HUF130bn (EUR 420mn), 35% of which had to be co-financed by private investors. Venture capital investments in Eastern Europe went up by 25% last year to EUR 1.6bn, the European venture capital association Invest Europe announced. However, certain amount of Jeremie funding has been used in questionable manner, according to the Hungarian edition of Forbes. For instance, leaders of certain funds reportedly allocated billions in "venture capital" to suspicious companies set up by themselves.

Dutch presence in Hungary

Randstad Hungary expands further

The Hungarian unit of the Dutch staffing firm Randstad opened a new office in Debrecen this month. In recent years more than 1.800 working places were created by an inflow of HUF 65bn (EUR 207mn) investment in the dynamically growing city, the second largest one

after the capital. Last year Randstad Hungary had revenue of about HUF 4bn (EUR 13mn), employing 150 people in its office.

Transport / Logistics

Government earmarks HUF 2.5trn (EUR 8bn) for road construction

The Hungarian government approved HUF 2.5trn (EUR 8bn) for a road development project, Minister of the PMO, János Lázár announced. According to him, 81 main roads will be upgraded and about 1,000 kilometres of new four lane motorways and expressways will be constructed by 2022. The cabinet also allocated HUF 1.1trn (EUR 3.5bn) for rail development projects which will include the renovation of Keleti and Nyugati railway stations in Budapest and the establishment of a railway line around the Lake Balaton. The National Infrastructure Development Company (NIF) called a public procurement tender for the construction of a new bridge over the Danube between Komárom in Hungary and Komárno in Slovakia. The main bulk of the expenditure on infrastructure will be covered by EU funds.

Wizz Air will launch new flights from Budapest

Hungarian low-fare airline Wizz Air launched its first direct route between Hungary's Budapest and Romania's Bucharest this month. Furthermore, WizzAir is to launch four new routes from April next year: the airline will fly to Faro, Hannover, Bergen and Lamezia Terme, reaching a total 55 destinations. Wizz Air will also fly more frequently to Nizza and Liverpool - three times a week instead of two. So far this year Wizz Air, which says it has a staff of more 1,000 in the air and on the ground, increased its passenger traffic by 25% year-on-year to 2.5 million which accounts for 29% of the market. The number will have risen to 3.5 million by the end of the year, according to the CEO, Zsolt Váradi.

Airport cargo transport is expanding

Qatar Airways Cargo announced that it will increase its weekly freight flights from two to three to Budapest's Liszt Ferenc International Airport as of 7 October 2016. This month, Qatar Airways celebrated five years of direct scheduled services between Doha and Budapest. Budapest Airport handled 70.268 tons of goods in the first eight months of this year, and air cargo volume increased by 14.8%, an outstanding achievement in the European market. This move fits into the airport's strategic plans to become a leading cargo hub in Central-Eastern Europe.

Circular economy / Environment / Water Management

Dutch government plans to recycle all raw materials by 2050

The Dutch government wants to reach a material agreement with companies, municipalities, provinces and civil society organizations before the end of the year. State Secretary Sharon Dijksma of Infrastructure and Environment wrote to parliament, "We must get rid of this disposable mentality" ANP reported. The agreement aims to halve the use of raw materials by 2030, and recycle all raw materials by 2050. An added advantage is that this approach will also reduce the emission of greenhouse gasses. The agreement must lead to products being reused becomes standard, and that one-off used products become a rarity. The agreement also includes the eventual disappearance of environmentally unfriendly packaging, like for chips and soups. In order to familiarise the Hungarian audience with the Dutch programme and the best practices applied, the Dutch Embassy

plans a series of events, starting with a one-day conference on circular economy in the agricultural sector to be held in December 2016.

Energy | Sustainable Energy

New renewable energy support scheme adopted

After substantial delays the Hungarian Parliament finally has adopted the new renewable support scheme called METÁR („Megújuló Támogatási Rendszer” – “Renewable Support Scheme”). The new support scheme for electricity is expected to come into force by 1 January, 2017 and may help to achieve the ambitious aim of reaching 14.56% ratio of renewables within its gross final energy consumption by 2020. The key feature of the new support scheme, is that the producers of renewable energy receive the aid as a paid premium over the market reference price (e.g. the average price of the regulated market). If you are interested to learn more about METÁR, please check the International conference organised by the KSZGYSZ on October 26, see our events section.

Economic indicators

Unemployment rate falls further

The unemployment rate in Hungary dropped to 4.9% in June-August 2016, which is an all-time low since the change of regime. Employment in the working age population (aged 15-64) increased to 67.1%. This figure has traditionally been low in Hungary but is now approaching West European levels. The average period of unemployment was 18 months, and 49.3% of those unemployed had been looking for work for over a year. The number of people employed in public works did not rise in the Summer months, their share was 5% within the active population. Minister for National Economy Mihály Varga said he expects the unemployment rate to continue falling in the coming months.

In fact, shortage of labour has become a common problem both on an industrial scale and geographically, whereas it previously burdened only certain sectors such as catering or health services, or towns close to the western border. No surprise that temporary employment services gained popularity last year, according to international personnel services provider Trenkwalder. The number of temporary staff rose by 25% to 125,000. The vast majority of these (88.4%) were blue-collar workers in the manufacturing sector, while the rest took administrative jobs. With the Hungarian economy struggling with labor shortages, employers can increasingly be expected to offer housing subsidies in order to attract and keep talent, experts suggest.

Economic and Monetary Policy

Ministry prepares new strategy for the food sector

The Agriculture Ministry launched a two-month long public debate on a drafted long-term strategy for the food industry, valid until 2050. The main purpose of the strategy with time horizon of 2050 is to use up the country's food potential which is estimated at 160% of its present level, Agriculture Minister Sándor Fazekas told reporters. The strategy also aims to increase the value-added of the production chain to 25% and to employ nearly 750,000 in the sector by 2050. The annual agriculture exports should rise to EUR 20bn, especially to neighbouring countries. Minister Fazekas also confirmed the government's stance to continue rejecting the GMO products. In a separate event, PMO Minister János Lázár said at press conference that reviewing the Hungarian food retail sector has convinced him that foreign companies should leave the country.

MNB forecasts 3% inflation in 2018

Inflation will reach the 3% target of the central bank by the mid-2018, later than previously forecast, while the expansion of the economy will continue this year, according to the latest quarterly inflation report from the MNB. The moderate external inflation environment continues to have a strong disinflationary impact, which kept the annual inflation rate in slightly negative territory in the summer months. The consumer price index will be consistently above zero this Autumn and disinflationary effects will gradually decline, the MNB predicted. The Hungarian National Bank has revised its inflation forecast to 0.4% for this year, down from 0.5% forecast in its June report. And next year's target was revised from 2.6% to 2.3%. Interestingly, the Hungarian Central Statistical office has just published a year on year inflation in September of already 0.9% which shows a clear change of trend. Full inflation report can be found: <http://www.mnb.hu/letoltes/eng-ir-digitalis-verzio-kpr-tol.pdf>.

S&P upgrades Hungary

Standard & Poor's Global Ratings has raised its long- and short-term foreign and local currency sovereign credit ratings on Hungary to 'BBB-/A-3' from 'BB+/B'. The removal from junk grade was unexpected, as S&P did not carry a positive outlook on Hungary. As a result, the Forint rose to 306 HUF/EUR rate, its strongest level against the euro since May 2015. Most analysts expect the MNB to make aggressive moves to stop the strengthening once the euro-forint exchange rate hits 305, as a strong forint would endanger the MNB's inflation targets. In turn, the Hungarian government plans "major changes" in the government bond market now that rating agencies have returned the country's debt to investment grade, PMO leader János Lázár told the press. As the upgrade by S&P has created new possibilities, PM Viktor Orbán has assigned Mihály Varga to draft a report on the potential consequences for the state bond market by December. It is interesting to note that, notwithstanding the recent financial crisis and the unveiling of the practices of rating agencies, Hungarian government still seems to attach value to these upgrading or downgrading of the solvency of national governments.

Events

Signing ceremony of EU Diversity Charter

Date: 20 October 2016

Venue: Residence of the Royal Netherlands Embassy

The European Diversity Charter was initiated in 2004 in order to capture and promote the European Union's anti-discrimination and diversity policies among employers. Its main objective is to raise leaders' awareness and to increase their commitment to mainstreaming diversity in their organizations by providing support and inspiration for developing and rethinking human resource management.

The Hungarian EU Diversity Charter was launched in September, 2016 initiated by the Hungarian Business Leaders Forum and MTD aiming to mainstream diversity in companies and create a diverse organizational culture.

For more information please visit the following website: www.sokszinusegikarta.hu

InfoCom Insights Roundtable event with guest speakers of Prezi and Ustream

Date: 20 October 2016

Venue: Eindhoven, EIT Digital @ High Tech Campus

Together with HBN EIT Digital will host a number of highly selected innovative Hungarian and Dutch InfoCom companies. The goal of the event is to bring together the outstanding ICT entrepreneurs of the two countries; Serve as inspiration for start-ups, Stimulate investments and cooperation between Hungary and the Netherlands by an informal and interactive gathering.

More info: <http://www.huchamber.nl/nl/agenda/hungarian-dutch-infocom-insights--1464643682>

Waste Management: Public services and energy recovery – International conference

Date: 26 October 2016

Venue: Hotel Benczúr, Benczúr u. 35. 1068 Budapest

Organiser: Ministry of National Development of Hungary in cooperation with Hungarian Association of the Environmental Enterprises.

The conference aims to give an overview about European legislation and practices, especially in context of circular economy the international practice and plans, the Hungarian situation and development trends.

The registration fee of participation is HUF 5.000 HUF + VAT (EUR 16 +VAT). You can register on the following e-mail address: kszgysz@kszgysz.hu

Pop-up Embassy in Pécs

Date: 5 November 2016

Venue: Pécs, Csontváry Museum

The Embassy is to organise a one-day event in Pécs to meet Dutch companies and people living in the region. For more information please follow the Embassy's Facebook page and register on the following e-mail adress: bdp-events@minbuza.nl