



## Hungary



*Business Support on Your Doorstep*

## Enterprise Europe Network London Country Profile August 2007



# Hungary



**Country's full name:** Republic of Hungary (*Magyar Köztársaság*).

**Capital City:** Budapest (1.7 million).

**Population:** 10.1 million. Hungarian: 90%. Ethnic groups: Roma, German, Slovak, Serb and Romanian

**Official Language:** Hungarian.

**Currency:** Forint consisting of 100 fillér (£1 = HUF 382 August 2007)

**Religion:** Roman Catholic 68%, Calvinist 21%, Lutheran 4%, other 7%.

**Area:** 93,030 sq km.

**Terrain:** Mostly flat with rolling plains, hills and low mountains on the Slovakian border.

**Climate:** Temperate with cold, cloudy, humid winters and warm summers.

**Administrative divisions:** Hungary is divided into 19 counties (megyek), 22 urban counties

(megyei város) and 1 capital city (főváros).

**Weights and Measures:** Metric.

**Time Zone:** GMT plus one hour. From late March to late October a daylight saving scheme is in operation which is three hours ahead of GMT.

**International dialling code:** 00 36.

**Government:** Hungary is a multi-party parliamentary republic. The National Assembly is unicameral and has 386 members comprising 176 seats for individual constituency winners, 152 seats selected by proportional representation from regional (county) lists and 58 seats from a national list. The Prime Minister is elected by the National Assembly on the basis of the principle of parliamentary majority. The President is elected for a five-year term by the National Assembly. The last parliamentary elections were in April 2006, the next election will be held in 2010. The current Prime Minister is Ferenc Gyurcsány (since 2004) and Laszlo Solyom is President (since 2005).

## ECONOMIC OVERVIEW

Hungary has made the transition from a centrally planned economy to a market economy, with a per capita income of nearly two-thirds that of the EU-27 average. The economy is dynamic, with annual growth rates of more than 4%. This development is based on a continually high level of foreign and domestic investment, increased productivity of the business community, international competitiveness and development of the infrastructure. During the period 2007-2013 it will receive around €30 billion in EU structural funds and government co-funding. These will be used to improve and develop the private sector, infrastructure, technology and employment.

Hungary is experiencing difficulty keeping the size of its growing budget deficit (10% of GDP in 2006), the foreign debt and the balance of payments' deficit down. The government has announced and begun to implement an austerity programme designed to address these issues, leading to eventual adoption of the euro in 2010 or 2012. Foreign ownership of and investment in Hungarian businesses are widespread, with cumulative foreign direct investment totalling more than €50 billion since 1989. 7.3% of the labour force was unemployed in 2005, which is a small increase compared to 2004. Nevertheless, there is still demand for skilled financial and marketing personnel. Trained managers capable of working in the new business environment are also in demand. The current imbalance in the Hungarian labour market is mostly due to the structural change towards a more service-oriented economy.

Conditions for continued growth appear sustainable for the next few years, assuming no serious economic downturn in the European Union occurs. However, overheating is a growing concern as consumer spending and borrowing rises and savings decline. The introduction of a higher minimum wage has only exacerbated this further, producing a spending boom.

The private sector, including industry and services accounts for over 96% of GDP, while agriculture remains a small sector in Hungary, accounting for only 3.1% of GDP and 5.5% of the labour force. Germany is by far Hungary's largest economic partner, while Hungary is the UK's third largest export market in Central and Eastern Europe (and 34th largest worldwide), with sales (goods and services) worth £1.4 billion in 2005.

<b>ECONOMIC INDICATORS</b>	
Population (2006)	10.1 million
Unemployment rate (2006)	7.5%
GDP (PPS) per head (euro) (2006)	16,000
GDP average growth rate (2006)	3.9%
Inflation rate (2006)	4%
Total exports (million euro) (2005)	50,6
Total imports (million euro) (2005)	53,5
Internet users (2005)	3.05 million

Sources: Eurostat

## **INFRASTRUCTURE / ENVIRONMENT**

### **Roads**

There are 159,568 km of roads, of which 70,050 are paved and 89,518 are unpaved.

### **Railways**

Hungary has a total of 7,937 km of railways. The standard gauge (1.435 m) with 7,682 is the most used railway. Only 2,628 km of railways are electrified.

### **Shipping**

Despite Hungary's landlocked status, there are still a total of six inland ports; Budapest, Dunaujvaros, Gyor-Gonyu, Csepel, Baja and Mohacs. Most of the 1,622 km of waterways can be found on the Danube River.

### **Civil aviation**

There are a total of 47 airports. The main airport is in Budapest which is enduring a fast growth of passengers and some cargo. In 2006 the number of passengers flying from Budapest grew by 6% to 8.288 million a year. The other international airports are in Debrecen, Sármellék, Pécs-Pogány and Győr-Pér.

### **Telecommunications**

In 2005 Hungary had 3.356 million telephone landlines in use, while 9.32 million people were using a mobile phone. The telephone landlines network have been modernised and are capable of satisfying all requests for telecommunication services. There were 3.05 million Internet users in 2005.

### **Environment**

Hungary's main environmental problems lie in upgrading its standards of waste management, energy efficiency and air, soil and water pollution to meet the required EU standards. The EU will largely fund these projects.

## **MAJOR SECTORS OF THE ECONOMY**

### **Agriculture**

Hungary has a positive agricultural trade balance. Agriculture is responsible for 9.1% of Hungary's total exports and 3.7% of total imports taking up 3.1% of the GDP. The most important agricultural products are meat, wheat and wine. These have been exported to the markets of Western and Northern Europe since Medieval times. About 227,000 people work in agriculture, fishery and forestry, corresponding to 6% of the total civilian employment.

### **Automotive sector**

The automotive industry is a key sector in Hungary, for it is a leading supplier for Central and Eastern European countries. In 2005 this sector's revenue was approximately €10.2 billion. The expectations are that more people will purchase new cars, due to the large usage of old cars in Hungary. Automotive exports from Hungary to other Central Eastern European countries amount to €220-240 million. The labour force in Hungary is well-educated but not fully employed, which makes it likely for the automotive sector to grow in the following years.

### **Construction**

The bulk of the construction industry spending over the next few years will be devoted to the transport sector, where there is strong demand for new road and rail facilities. The construction industry will see an annual average growth rate of 7.54% between 2007-2011. The market is hampered by strong price competition and local regulations, but there are business opportunities in the construction sector, as well as in the emerging regeneration and property development sectors.

### **ICT**

The Hungarian ICT sector is a well-established and developed industry. The total ICT market in Hungary accounts for about 7.1% of the country's GDP taking a total sum of approximately £4 billion. The market is expected to grow further, under the influence of the private sector. Fierce competition has led to price and profit decrease in the hardware market.

### **Telecommunications**

Telecommunications has been virtually stagnating since 2006; sales and revenues are not increasing. The total telecommunication market was estimated in 2005 to be £2.6 billion. The fixed and the mobile market are now dominated by private, mainly foreign-owned service providers. Since Hungary joined the EU, the telecommunication sector is fully liberalised.

### **Food and drink**

The Hungarian food industry plays an important role in Hungary's economy, with a total estimated value of about €7.8 billion. It represents around 14% of the total processing industries, buying 75% of the local agricultural produce, which accounts for 8% of Hungary's total exports. It accounts for 5% of the GDP employing 5% of the active population.

### **Transport**

The GDP contribution of the transport sector is likely to grow with 4-5% next year. The output in 2006 grew 10% and this trend is likely to continue. A rising industry and agricultural transport sector, has led to further physical developments in the infrastructure.

## **BANKING AND FINANCE**

### **Banking**

The Bank of Hungary has functioned as the authority responsible for foreign exchange, deposits and responsibilities and powers in the field of economic policy. After the Second World War, Hungary had a single-tier banking system. Since January 1987, Hungary returned to a two-tier banking system establishing new commercial banks. Foreign banks have entered the market since then, being responsible for 80% of the banks in the private sector. The Bank of Hungary has kept its independence and continues to be the monitoring authority for economic policy.

#### **Bank of Hungary**

Szabadság tér 8–9, Budapest 1054  
T: 0036 (1) 428 27 52. F: 0036 (1) 428 25 69  
W: [www.mnb.hu](http://www.mnb.hu)

#### **Hungarian Banking Association**

József nádor tér 5-6., Budapest H-1051  
T: 0036 (1) 483 18 66. F: 0036 (1) 483 19 10  
W: [www.bankszovetseg.hu](http://www.bankszovetseg.hu)

The Hungarian Banking Association was founded by 22 banks and financial institutions, because the emergence of a two-tier banking system also demanded the creation of a body to represent

commercial banks. The most important function of the association is to represent its members' interests vis-à-vis third parties.

### **Budapest stock exchange**

Andrássy út 93, 1062 Budapest  
T: 0036 (1) 429 68 57. F: 0036 (1) 429 68 99  
W: [www.bse.hu](http://www.bse.hu)

### **Insurance**

Only four of the 30 insurance companies are Hungarian owned. All others are 100% foreign-owned. Many other companies, including a large number of British, operate trans-nationally. All must be licensed by PSzAF and are required to hold a minimum of approximately £13,000 capital and unlimited personal indemnity cover. Life insurance is growing rapidly as Hungarian consumers become aware of the benefits of insurance.

### **Pénzügyi Szervezetek Allami Felügyelete (PSzAF) (Hungarian Financial Supervisory Authority)**

Krisztina krt.39, 1013 Budapest  
T: 0036 (1) 4899 100  
W: [www.pszaf.hu](http://www.pszaf.hu)

The primary aim of the supervisor's strategy is to catch up with the international development of financial activities and supervisory methodology.

### **Pension-funds**

The whole pension fund area is one which is developing fast in Hungary, especially in the area of sustainable investment. There may be some scope for UK companies to showcase their expertise and experience in managing these types of funds.

## **OPPORTUNITIES FOR UK EXPORTERS / INVESTORS**

### **Overview**

British companies have a high reputation in Hungary, meaning there are opportunities in almost every sector. UK Trade and Investment has identified a number of priority sectors: airports, automotive, constructions, electronics, healthcare, railways, security and water.

### **Airports**

The Hungarian aerospace industry has changed drastically since the political changes in the 1990s. There are now 91 registered organisations that employ about 2000 people. The industry is 99% privately owned. In 2003 six managers created the Hungarian Aviation Industry Foundation (HAIF) with the desire to speed up the industry. By the end of 2006 HAIF changed into Hungarian Aerospace Research Platform (HARP) to help research and development organisations to participate in the EU's Seventh Research Framework Programme (a funding programme dedicated to promote research in the EU). These organisations and companies are young and ambitious and will actively seek partners globally. This gives UK companies opportunities in the field of training, consulting, subcontracting, technology transfer, business exchanges and joint product development. At the moment Budapest airport has substantial developments worth £40-50 million. Small airports are in need of refurbishment and new investments which offers opportunities for UK enterprises.

### **Financial sector**

Although competition can be fierce, there still exists some opportunities in niche areas. The Hungarian banking sector is over-penetrated which will lead to rationalisations in the future. This could offer opportunities for UK banks to enter the market. The Hungarian insurance market is one of the fastest growing in the EU with a lack of manpower in the re-insurance market.

### **Automotive sector**

Entering the Hungarian automotive market offers great opportunities in this market, as well as in the surrounding countries. Motorcycle sales are going up and as there is practically no production of motorcycle parts in Hungary. An important feature of automotive manufacturing in Hungary is that it has the labour force skills for R&D but does not take full advantage of them. This feature provides

specific new opportunities in technology and know-how transfer. Wages are still significantly lower than in the rest of the EU.

### **Biotechnology**

The emerging biotech industry in Hungary has recently been attracting international attention. There are rapidly developing opportunities for foreign companies in the biotech and related sectors, such as pharmaceuticals, industrial biotech, agricultural biotech and service providers. Hungary has the most biotech companies and established the first biotech association in Central Eastern Europe. It has the highest proportion of the labour force working in R&D and files the highest number of patents. Opportunities for UK businesses lie in the field of professional services and expertise, especially for facilities design and management companies and manufacture of bio-pharmaceuticals (and bio-agrochemicals) for the large and increasing eastern and central European market.

### **Railways**

The Hungarian rail tracks are planned to be modernised over the next few years. MÁV, the Hungarian national railways, have initiated a Long Run Modernisation Programme of 2,727 km of rail tracks. 730km of railway line modernisation is planned for the period of 2008-2015. Electrification and signalling projects are also planned. There is a shortage of design capacity to complete the plans. Maintenance is also an important element of the process and spare parts might be needed. Besides these projects, there is also a new metro line under construction in Budapest. All these programmes offer opportunities for UK businesses.

## **BUSINESS CULTURE**

### **Business hours**

Most commercial businesses are open from 9.00 to 17.00 or 18.00, while most shops close on Saturday at 13.00. Banking hours for customers are generally 8.30 to 15.00 or 16.00 and closed on national holidays.

### **National holidays**

- |                                    |                  |
|------------------------------------|------------------|
| • Proclamation of the Republic     | 23 October 2007  |
| • All Saint's day                  | 1 November 2007  |
| • Christmas Day                    | 25 December 2007 |
| • 2 <sup>nd</sup> Day of Christmas | 26 December 2007 |
| • New Year                         | 1 January 2008   |
| • Anniversary of 1848              | 15 March 2008    |
| • Easter Monday                    | 24 March 2008    |
| • Labour Day                       | 1 May 2008       |
| • Whit Monday                      | 12 May 2008      |
| • National Day                     | 20 August 2008   |

### **Dress**

Dark business suits for men and an understated dress or suit for women are appropriate business wear.

### **Business etiquette**

There is a formality to Hungarian business life. Appointments should normally be made in advance. Business cards should be exchanged. The handshake is used both on meeting and taking leave. Formal professional or academic titles are still used especially amongst the older generation.

## **SETTING UP A BUSINESS IN HUNGARY**

Hungarian company law allows a wide variety of business structures. Branch offices are allowed as are wholly or majority-owned limited companies, limited partnerships and closed or open joint-stock companies. The Companies' Act guarantees a decision on an application to establish a company within approximately two months. In the intervening period a so-called "pre-company" can carry out many activities of a registered company.

A wide variety of support services is available to companies first establishing in the Hungarian market, from expatriate help agencies to "instant office" space with all services laid on including multi-lingual receptionists, secretarial and support staff.

**W:** [www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)

#### **Hungarian Investment Trade Development Agency**

Andrássy út 12 H-1061 Budapest.

T: 0036 1 472 8100. F: 0036 1 472 8101. E: [info@itd.hu](mailto:info@itd.hu)

**W:** [www.itdh.com](http://www.itdh.com)

#### **Hungarian Chamber of Commerce and Industry**

Kossuth Lajos tér 6-8, 1055 Budapest

T: 0036 1 474 5141. F: 00361 474 5105. E: [mkik@mkik.hu](mailto:mkik@mkik.hu)

**W:** [www.mkik.hu](http://www.mkik.hu)

## **FURTHER SOURCES OF INFORMATION / USEFUL ADDRESSES**

#### **Enterprise Europe Network London at London Chamber of Commerce and Industry**

33 Queen Street, London, EC4R 1AP

T: +44 (0)20 74891992. F:+44 (0)20 72031812 E: [europa@londonchamber.co.uk](mailto:europa@londonchamber.co.uk)

The Enterprise Europe Network London brings together GLE, London Chamber of Commerce and London Technology Network. We provide practical, hands-on support and information for London's small and medium businesses seeking funding, hoping to expand their business into Europe, or wishing to develop (technology) partnerships with other European businesses.

**W:** [www.een-london.co.uk](http://www.een-london.co.uk)

#### **London Chamber of Commerce and Industry**

33 Queen Street, London, EC4R 1AP

T: 020 7248 4444. F: 020 7489 0391. E: [lc@londonchamber.co.uk](mailto:lc@londonchamber.co.uk)

London Chamber of Commerce's World Trade Team, Information Centre and Enterprise Europe Network can provide information or advice on many topics relating to international trade and overseas markets, including Hungary. London Chamber of Commerce is a membership organisation but non-members can utilise certain services on a charged basis.

**W:** [www.londonchamber.co.uk](http://www.londonchamber.co.uk)

#### **UK Trade and Investment**

Country desk, 66-74 Victoria Street, London, SW1E 6SW

T: 020 7215 4992. F: 020 7215 4711. Direct contact: Peter Blawat. T: 0030 (0) 210 727 2777. E: [peter.blawat@uktradeinvest.gov.uk](mailto:peter.blawat@uktradeinvest.gov.uk)

UK Trade and Investment is the British government body responsible for helping UK companies secure overseas sales and investments. Their website has pages for each country in the world, including Hungary.

**W:** [www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)

#### **British Chamber of Commerce in Hungary**

Bank u.6. 2nd floor, 1054 Budapest

T: 0036 1 302-5200. F: 0036 1 302-3069. E: [bcch@bcch.com](mailto:bcch@bcch.com)

**W:** [www.bcch.com](http://www.bcch.com)

#### **Embassy of Hungary**

35 Eaton Place, London, SW1X 8BY.

T: 020 7235 5218. F: 020 7823 1348

**W:** <http://hungary.embassyhomepage.com>

#### **British Embassy**

Harmincad utca 6, 1051 Budapest

T: 0036 1 266 2888. F: 0036 1 266 0907. E: [info@britemb.hu](mailto:info@britemb.hu)

**W:** [www.britishembassy.hu](http://www.britishembassy.hu)



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