U.S. Country Commercial Guides

Hungary

2020

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Doing Business in Hungary

Market Overview

Hungary, located in Central Europe with a population of 9.6 million people, successfully transitioned from a centrally planned economy to a market-based one after the fall of communism in 1989. It is a member of the OECD (1996), NATO (1999), the European Union (2004), and the Schengen Zone (2007). Per capita income is two-thirds that of the EU-28 average and total GDP in 2019 was $157.8B. Hungary boasts a strategic location in Europe, easy access to EU markets, a highly skilled and educated work-force, and a sound infrastructure which have led companies such as GE, Arconic, Blackrock, UPS, Coca-Cola, National Instruments, Microsoft, IBM and many others to locate manufacturing and services facilities in the country. According to Uniworld, there are more than 400 wholly-owned U.S. companies in the country while the Government of Hungary statistics indicate U.S. affiliates employ approximately 110,000 Hungarians. This makes the U.S. the second-largest investor in Hungary after Germany, in terms of employment numbers.

FDI in Hungary has helped modernize industries, create jobs, boost exports, and spur economic growth. Hungary's cumulative FDI stock since 1989 totals more than $98B and is centered around key sectors such as automotive, IT, electronics, logistics, food processing and shared service center operations. In order to stimulate additional foreign investment, in 2017 the government lowered the corporate tax from 19% to 9%, the lowest in the European Union.

According to U.S. Department of Commerce data, U.S. merchandise exports to Hungary in 2019 totaled $1.65B, a slight decrease compared to 2018. Exports were led by machinery, electric machinery, vehicles, electronics, IT equipment, vehicle parts, industrial engines, and other manufacturing technologies and supplies. Hungary boasts a significant trade surplus driven by its primary trading partners within the EU (particularly Germany). In the first six months of 2020, the EU received 78% of exports and provided 68% of imports.

Hungary's GDP annual growth rate was 4.6% in 2019 and the National Bank of Hungary forecast estimates only a solid 0.3-2% fallback as a consequence of the COVID-19 pandemic for 2020. The Government of Hungary also envisions a central budget deficit of 2.9% of the GDP and 3.4% inflation for 2020. In the first five months of 2020, exports fell 13.2% to $45.1 billion and imports were down by 11% at $42.7 billion. In the 2020 budget, the cabinet forecasts a rise in state debt, calculated according to Maastricht rules, from 66.3% of GDP recorded in 2019 to 72.6% in 2020, before falling to 69.3% in 2021. (Source: https://index.hu/gazdasag/2020/06/25/az_mnb_tovabbra_is_gdp-novekedessel_es_tarthato_inflacios_celokkal_szamol/)

The unemployment rate decreased to 3.4% in 2019 but increased to 4.1% in the period of March – June this year.

Market Challenges

Hungary's regulatory climate makes it an increasingly difficult place to conduct business. The country climbed from the 53rd (2019) to the 52nd (2020) place among 190 economies in the World Bank's latest Ease of Doing Business ranking (behind Poland, the Czech Republic, and Slovakia).

- Since 2016, multinationals have identified shortages of qualified labor, both white and blue collar, as the largest obstacle to investment in Hungary.
- During recent years, the government has introduced several new taxes which mostly hit the banking, energy, retail and telecommunications sectors. In certain industries, such as media and retail, these unpredictable, sector-specific tax and regulatory policies have favored national and government-linked companies.
- In addition, Hungary's rate of value-added tax (VAT) for most products and services is 27%, the highest in the EU.
- Persistent corruption and cronyism continue to influence the public sector. The Corruption Perceptions Index (CPI) by Transparency International showed a slight increase as the country's score moved from 46th place in 2018 to 44th place in 2019. In 2016, the government of Hungary withdrew from the Open Government Partnership (OGP), a transparency-focused international organization, after refusing to address the organization's concerns about transparency and good governance. Despite the strong pressure from the opposition and public, the government of Hungary rejects joining the European Public Prosecutors Office.
- EU funding is a large driver of Hungarian GDP growth. Based on the recent outcome of the 2021-2027 MFF negotiations, Hungary will be able to apply for more than EUR52.8B from the central budget, which would mean a 35% increase compared to the previous term's sum. (Source: https://www.portfolio.hu/unios-forrasok/20200721/borzalmasan-sok-eu-penzt-kap-magyarorszag-kozel-felevel-is-nohet-az-elkoltheto-keretunk-442014)
- After the April 2018 national election, Prime Minister Victor Orban's ruling Fidesz party retained its leadership and won a majority of votes in the 2019 EU Parliament elections. The Government of Hungary remains focused on being an export-oriented economy facilitating Foreign Direct Investment (FDI) and a further lowering of taxes. It remains to be seen what will happen with public sector activity.
- In 2020 the Government of Hungary passed legislation which requires investors outside the European Economic Areas to request approval from the Minster for Innovation and Technology for new investment exceeding a certain threshold and participation. The law will remain in force until December 31, 2020.

Market Opportunities

Hungary maintains an open economy and its high-quality infrastructure and central location are features that make it an attractive destination for investment. Despite the many challenges that accompany the local business environment, Hungary remains an attractive market for U.S. investment and exports. Top reasons for doing business in Hungary include:

- One of the fastest growing economies in the European Union.
- Central location considered to be the gateway to Central/Southeast Europe.
- Well-educated and trained workforce.
- Supply chain opportunities in manufacturing, automotive and electronics industries.
- Government emphasis on innovation and knowledge-based technologies.

EU funding through 2020 has driven Hungarian growth as it has been used for more than 60,000 projects to improve telecommunications, energy and highway infrastructure. As part of the National Development Plan (2014-2020), Hungary allocated approximately $33B to projects ranging from tourism and infrastructure development to healthcare and environment protection. Hungary will be given EUR52.8B from the central budget in the next EU budget cycle (2021-2027) focusing on increasing Hungary's competitiveness in both economic and social terms. An ambitious Europe needs an ambitious budget in six main objectives: to enhance the productivity and innovation capacity of Hungarian SMEs to become key players in international economic competition; to increase employment rates and improve productivity and employment conditions; to invest in infrastructure which contributes in particular to enhancing our competitiveness; to increase cross-border cooperation with neighboring regions; to give research, development and innovation a central role; and to facilitate the widespread use of renewable energy and encourage the transition to a greener, low-carbon industry leading to a circular economy to fight climate change.

The government's goal is to provide clean, smart and affordable energy for consumers. In addition, its main objectives are to strengthen security of energy supply, transform the energy sector to become climate friendly, and stimulate innovation opportunities of economic development importance. A further goal is that most of Hungary's electricity is produced from two sources: nuclear and renewable, primarily solar power plants. By using solar and nuclear energy together, by 2030, 90% of Hungary's electricity production will be carbon-free. By 2040, Hungary's electricity imports will fall from the current average of over 30% to below 20%.

In addition, Hungary aims to reduce greenhouse gas emissions by at least 40% by 2030 compared to 1990 levels. Hungary has also committed to increasing the current 14% share of renewable energy to at least 21% by 2030. Greening transport is key to achieving climate goals. Hungary is at the forefront of developing electric mobility in the region, with 672 charging stations nationwide and over 14,000 green license plates on the roads (2019). Zala Zone is a PPP project and is a proving ground for classic vehicle tests and environment of automated, connected & autonomous mobility solutions to be implemented in South-west Hungary with a joint support of Austria, Slovenia, and Hungary. Once completed at the end of 2020 it will provide multi-level testing environment, dynamic platform high-speed handling course and a Smart City Zone. Zala Drone section is to be added to the facility from 2021.

Market Entry Strategy

The U.S. Government, through the U.S. Embassy in Budapest and the Departments of Commerce, State, and Agriculture stands ready to support U.S. firms, whether entering the market or already doing business in Hungary. The U.S. Embassy promotes a sound Hungarian business environment and advocates on behalf of U.S. companies bidding on major Government of Hungary tenders, or facing business problems due to government policies. Specifically, the staff at the Embassy's Commercial Section help U.S. firms to access the Hungarian market and solve commercial problems through counseling, market research, and business service programs.

To conduct a more thorough search for reports on specific industries and sectors within EU member states please consult the U.S. Department of Commerce's Market Research Library.

Leading Sectors for U.S. Export and Investment

Medical Technologies

Overview

Hungary's market size is comparable with those in Slovakia and Austria. The number of healthcare sector employees exceeds 120,000 people working for 150 export-driven medical manufacturers contributing with a 4.9% output to Hungarian exports. The country has a solid base for manufacturing a range of medical devices and a century of medical technology traditions. However, it is also challenging for domestic production to compete with Western quality and innovations. The Hungarian MedTech sector can boast with strong academic background, cutting edge research and development in university spinoffs with research areas in medical imaging, electrical and biosensor devices, as well as lab diagnostics.

Annual local production was valued at $914M in 2018 and consists mainly of electro-medical equipment, blood pressure equipment, TENS instruments, apnea alarms, incubators, infusion pumps, mechanical medical supplies, dental supplies, maternity products, and specialized x-ray and IVD equipment. Local production and imports generally complement each other.

Recurring hospital debt remains the biggest problem in the country's healthcare system resulting in postponing surgeries and other inevitable treatments. Hungary's state-run hospitals generated debt of almost $190M in 2019. The country has been criticized in several fields in healthcare calling for system-wide changes including:

- Lack of planned surgeries available within 90 days or even postponing surgeries;
- Long wait time for treatment with special focus on orthopedics and neurosurgery;
- Underuse of diagnostic examinations such as computed tomography (CT) or magnetic resonance imaging (MRI);
- High ratio of death caused by cardiovascular diseases and strokes;
- Aging and lack of certain medical professionals: family doctors, pediatricians, nurses etc.

Hungary is working to achieve a globally significant position in certain sectors where its infrastructure and know-how are strong, such as clinical trials of new, innovative drugs, and the development of biopharmaceuticals, in-vitro diagnostics, animal biotechnology, bio-refineries, and the use of bioreactors. The historically strong Hungarian pharmaceutical industry has an established knowledge base and skilled workforce that enabled the creation of a red biotech subsector adept at developing therapeutics, unique in the CEE region yet also strong by international comparison. Therapy development has become more important as more and more original research technology/service provider companies started their own product development programs. Key representatives of international biotech companies present on the market include Richter, Egis, Amgen, Omixon, Biogen, Servier, Solvo Biotechnology, etc. Hungarian biotechnology companies have also expanded their presence into the major European markets. The expansion is supported by the Government of Hungary since the National Research, Development and Innovation Office regards biotechnology as a strategic area to develop. Significant results have been achieved in nanotechnology, molecular chemistry and biotechnology services. Red biotechnology – also known as biopharmaceuticals – is a prosperous sector and market players are seeking opportunities to intensify their activity in the international arena. The Hungarian Biotech Association plays a key role in initiating biotech researches. Prominent Hungarian universities led by the Budapest Medical University (SOTE) and Medical Universities of Debrecen, Pecs and Szeged have active working relationship with international biotech research companies including GE Healthcare and Siemens.

Medical device and pharmaceutical importers might face problems obtaining approval to be placed on insurance reimbursement lists – something that is also a challenge in other Central and Eastern European countries. If a product is not included on the reimbursement scheme paid by insurance companies, the market for the product is limited. The catalog of reimbursed operations, medical aids and pharmaceuticals is reevaluated every six months. Drug categorization takes place on bi-monthly basis. Drug price referencing is executed twice yearly by the National Health Insurance Fund.

Leading Sub-Sectors

Economic growth and an increase in health spending have resulted in a strong demand for medical device imports in 2018. Imports from the U.S. were $15.3M in 2019.

The majority of medical equipment suppliers in Hungary are EU-based manufacturers (primarily German, Italian, and French). Major U.S. medical suppliers, such as GE Healthcare, Medtronic, Johnson & Johnson, and Becton Dickinson also have direct representations or subsidiaries in Hungary. Most promising subsectors are biomedical devices, cancer and other diagnostic devices, post-surgery recovery solutions, imaging technologies, and dental equipment. Investments in new medical equipment within the private health care sector are expected to continue to increase.

Due to the COVID-19 pandemic, healthcare-related technology development has become a priority sector of the Hungarian Government. The focus of the new healthcare culture will be on preventative measures and promoting a health-conscious lifestyle to extend the average age of Hungarians, which is currently one of the lowest in Europe at 76 years.

The "For Healthy Budapest" program will start this year (2020) and run until December 2026. The program's focus is on renewing healthcare services and technologies used in public hospitals and polyclinics, and reducing waiting time for surgeries. The central budget will allocate HUF 700B ($2.18B) for the program.

For this year, the Minister of Human Capacities announced a budget allocation of HUF 8.3B ($25M) to be set aside for MedTech and HealthIT development in central and regional public hospitals and polyclinics in Hungary within the program. MedTech technologies include diagnostics, laboratory, surgery, intensive therapy and anesthesiology equipment, and necessary IT support to serve the equipment. MedTech procurement will be realized via centralized tenders.

Opportunities

Medical device suppliers can benefit from a proposal aimed at redeveloping Budapest's hospitals by 2025. The establishment of three super-hospitals in the city will involve the expansion of existing facilities, the increase of not only bed capacities but also related technology advancements, and the refurbishment of inpatient institutions will all help drive market growth.

As a member of the EU, Hungary's local legislation concerning medical devices complies with EU directives. More information on national requirements can be found at the National Institute of Pharmacy and Nutrition: https://www.ogyei.gov.hu/main_page

A foreign producer that wishes to export medical devices into Hungary must first establish a contract with a local importer, who can help the company fulfill regulations such as the CE mark, Declaration of Conformity, and translation of directions and manuals into the Hungarian language. Medical devices and pharmaceuticals are subject to a customs duty and VAT of 27%. The duty for medical technologies imported from the United States ranges according to a specific Harmonized Schedule (HS) code and is between 3-11%.

Hungary has promising market opportunities in the fields of sophisticated health technologies and equipment, dental care equipment and many other devices that increase efficiency and reduce occupancy rates in hospitals. Products with the best sales potential in Hungary include but are not limited to:

- Electronic Medical Records (EMR) systems
- Patient monitoring systems
- Mini invasive surgery (MIS) and day surgery equipment
- Ambulance cars and related equipment
- CT and MRI equipment
- Video endoscopes
- Digital image processing and picture archiving

Tenders for healthcare public procurements are published in the Supplement to the Official Journal of the European Union: http://ted.europa.eu

Main Competitors

Hungary's medical device manufacturing sector is skilled yet remains relatively small. Thus, more than 70% of the Hungarian medical device market is dominated by imports mainly from European Union markets such as Germany, France, Italy, and the UK. Direct imports from the United States account for around 9%. High quality and technically sophisticated U.S. medical equipment has the best market potential in Hungary, especially equipment that increases efficiency and reduces occupancy rates in hospitals.

Trade shows with international attendance include the Hungaromed and Dental World Budapest Congress, Hungary's largest event for dentistry professionals taking place October 16-18, 2020.

Safety and Security

Overview

The safety and security equipment market has become a leading sector for U.S. exporters in the Hungarian market in the past few years. It consists of approximately 900 companies – both locally based SMEs as well as multinational subsidiaries – employing approximately 25,000 people and contributing 7.5 % to the national GDP.

The domestic market is dominated by imported equipment, especially in the high-tech end of security and technology solutions used by Hungarian law enforcement organizations. Typically, physical security services are provided by local companies due to local standards and licensing requirements. The market for fire safety and technological security (alarm systems) is one of the best organized segments within the industry.

Foreign companies are active in the supply of equipment and systems for perimeter security, CCTV, inspection and image analyzing equipment, and video-surveillance systems; access control systems; screening equipment; and fire protection systems. French, German, Italian, American, Israeli, Japanese, Chinese and Taiwanese companies are active in the market.

The following systems have local production: data protection, optical registration devices, systems for technical safety of buildings, fire alarm systems, signal receiving equipment, and cryptographic security units. There are several local developers of biometric identification systems, biometric access control, and time and attendance systems.

The issue of cybersecurity falls within the remit of the Ministry of Innovation and Technology in Hungary. Since the country is part of the European Union it follows EU laws and strategy when it comes to the privacy of its citizens on the internet. The European Commission promotes cloud computing since 2012 which has the potential to boost GDP by EUR 160 billion by 2020 and create 2.5 million new jobs.

In order to protect the European citizens, the EU has worked out a document that regulates the use of data provided by Europeans for all companies serving the European Union and/or processing the personal data of EU citizens. Please see the data privacy section of this report for more information.

Opportunities

Technologies, materials, and equipment that are of innovative nature present business opportunities for U.S. companies.

Airport security was one of the best prospects until the pandemic started. Both the Budapest International Airport and Debrecen International Airport have initiated security-related development projects including passengers and cargo screening that demand airport security equipment and upgrades of border crossing points.

Security technology for property protection at manufacturing and industrial facilities/ parks as well as public areas also present opportunities for innovative solutions. During the last few years, the security and building automation market saw an annual increase of 3.8%. There was a 4.1% increase in the anti-intrusion equipment segment, while the CCTV component increased by 6.5%.

Within the anti-intrusion sector, access control remains an important and highly competitive area. The industry is migrating toward IP and integrated solutions. The trend is to move away from proprietary technology towards open systems that allow the integration of multiple applications. Other drivers include the growth of time and attendance applications, the demand for smart card and optical card systems, the need to reduce fraud, and increasingly an acceptance of biometric systems. Training for integrators and installers is essential in order to effectively meet end-user needs.

An increasing number of private properties has proper security and alarm systems installed in Hungary. Urban security is a prime concern, particularly with the recent spread of crime and burglaries. Opportunities exist for private security operators – such as security guard service companies – to provide technology and services to private citizens. Examples of public-private collaboration include municipalities and private security service companies that utilize public security cameras and CCTV systems installed by banks, hypermarkets, and in public places to survey areas and provide services to businesses or private citizens, all in cooperation with the municipal police.

Within the safety arena, potential opportunities exist in CBRN protection, particularly for new, advanced sensors that reveal chemical agents and provide more effective protection. In terms of investments in this niche market, minor cuts have been seen in the budgets of the responsible agencies. While public sector spending will remain less than expected, continued opportunities exist among well-funded organizations, banks, and governmental agencies such as the Counter Terrorism Center, Disaster Management Center, the National Police, and the SWAT police team.

Equipment with the greatest sales potential include:

- Advanced video surveillance monitoring solutions
- Platform/sensor land border surveillance and detection systems
- Automated home protection solutions
- Screening and X-Ray systems for airports, customs, and public facilities (office buildings, logistic centers, warehouses)

- Access control and alarm systems
- CCTVs, Security cameras for large facilities and public areas
- Wireless security solutions
- General security supplies (such as window foils, transportation security products, personal safety products)

Hungarian users have high consideration for innovative, sophisticated American security products and solutions. Strong after-sales service, maintenance, and training are essential to success.

Smart Cities and 5G

Overview

Hungary has been hosting a select number of Smart City initiatives and test projects over the past years, both on a municipal and national level. However, the country has yet to embark on a large scale and centralized smart cities undertaking as seen in many other Western European countries. Until now, many smart city initiatives were incentivized by collaborations of municipal and business players in this sector, often focusing on specific technical advancement. In order to enforce a more centralized management in this area, the government assigned the Lecher Center in 2015 to coordinate and support upcoming smart city initiatives and to link public and private players thus igniting a movement for more smart cities projects in Hungary.

There is no specific ministry assigned by the government to be responsible for smart city projects, but every government entity would have a role in it, although it is mostly covered by the Ministry of Innovation and Technology, as well as the Ministry of Interior's e-Government Secretariat. The concept of smart cities appears in several government programs including the Digital Welfare Program 2.0 – introduced in 2018 – and the Modern Cities Program (MCP) that is a development project running until 2022 with a budget of $12B (HUF 3500 B) available for 250 projects in 23 municipalities across Hungary. By the end of 2020, 75 MCP projects have already been finished. During the next EU cycle, several ministries plan smart city developments in the amount of $330M (HUF 100B). The amount is not yet confirmed, the government is expected to decide on them as well as on which ministry can dispose of what portion of that fund during the Fall 2020.

Sub-Sector Best Prospects

Smart mobility is one of the best prospects. Intelligent transport systems are being installed in several cities. The development of such solutions has become a priority for local municipalities and includes radar, cameras, automatic scales, and advanced electronics for road transport. Hungary's Modern Cities Program includes $133M for public transport and smart mobility development projects.

Smart living and healthy lifestyle are dynamically expanding areas with promising opportunities for U.S. firms. Around 90% of families are incorporating smart living technologies into housing designs and their lifestyles. For example, the wearables market in Hungary is anticipated to grow by 4.6% annually, resulting in a market volume of $10M by 2023.

Smart buildings and construction are other areas of focus. Both the public and private sectors are converting current buildings into smart buildings including renewable energy sources, advanced access controls, and sophisticated security management among other innovations. Hungary's Modern Cities Program for example, is managing funds worth $343M for the development of energetic systems and public utilities in 8 cities.

Opportunities

Hungary is looking to be one of those countries to quickly launch an efficient 5G network, thereby acting as a European hub for 5G development. An auction for national spectrum licenses for the development of 5G in the 700MHz, 2.1GHz and 3.6GHz bands was concluded on March 26th, 2020. The three dominant mobile players won spectrum with licenses covering 15 years until 2035. The construction of a 5G trial zone is in progress in Zalaegerszeg (western Hungary), aiming to embody autonomous operation, 5G development and all the other specific features of the smart city.

Since mid-2018, Magyar Telekom has been conducting 5G trials and the first 5G standard station opened at Zalaegerszeg at the end of January 2019. However, the first operator that launched commercial 5G service was Vodafone Hungary in partnership with Huawei in October 2019. It has been continuing to expand its 5G network coverage with the development of 5G base stations in larger rural towns and around Lake Balaton. The company initially deployed 5G base stations in the inner city of Budapest and Zalaegerszeg.

In April 2020, Vodafone and Huawei's previous position as the sole option in Hungary for 5G services was challenged by Magyar Telekom and Ericsson that also launched commercial 5G services. This launch follows Magyar Telekom's acquisition of 160MHz of 5G spectrum. The service can be used with 5G devices and the appropriate post-paid package in certain parts of Budapest and Zalaegerszeg to start. The third operator, Telenor has yet to launch commercial 5G services. During May 2019, it launched pilot services in Győr (Northwest Hungary) using technology from ZTE Corporation, which also provided 5G-capable mobile phones for the testing.

This type of cutting-edge technology would advance Hungary's Smart City programs and help Hungary set up a higher living standard. However, this type of change will need to stem from cities like Budapest first before making real change in surrounding smaller towns. 5G is one area that can offer a foundation for Budapest to introduce and test smart solutions in everything from sustainable mobility systems to CNG-fueled vehicles that when deemed successful can later make their way to other parts of the country.

Web Resources

https://www.institutmontaigne.org/en/publications/5g-europe-time-change-gear-part-1

https://www.eib.org/en/publications/smart-cities-smart-investments-in-cesee

https://www.linkedin.com/pulse/smart-cities-eastern-europe-cee-growing-potential-emma-lee

http://okosvaros.lechnerkozpont.hu/en

https://www.privatebank.citibank.com/home/fresh-insight/citi-gps-sustainable-cities.html

Consumer Electronics and E-Commerce

Overview

Previous sluggish growth in consumer electronics spending can be attributed to factors such as fiscal austerity, tighter credit conditions, exceptionally high foreign-currency denominated debt and elevated unemployment levels. The weak forint also placed a constraint on Hungarian demand for imported consumer electronics products, which are mainly imported from abroad. Selling conditions for consumer electronics will remain challenging, but the outlook for rising incomes, product innovation, and demographic trends should support a growing curve for consumer electronics spending. The increase in purchasing power will translate to greater device affordability in local currency terms, both for imported devices and those assembled locally with imported components and/or parts that were priced in USD. However, the spread of Covid-19 globally will have a negative impact on Hungary's consumer spending in 2020, with real household spending forecast to contract by 3.6% year-on-year.

Hungary’s e-commerce sector is growing rapidly. Internet sales exceeded EUR 1.8 billion in 2018 according to Ecommerce News. Even though the country is one of the fastest growing e-commerce markets in the region, it is still behind the EU average with 62% of the population having used the internet for retail in 2018. The creation of new access channels to grocery and non-food products could become a driving force in the future. Hungary’s shifting demographic might cause negative long-term consequences for online retail as the 20-39 year-old age group is forecast to be the fastest shrinking in the country. Main online retailers in Hungary include Tesco, Media Markt, H&M, Stradivarius, Árukereső, Jófogás, and Vatera. Local web shops generated $1.64B in turnover, more than 5% of the total national retail trade volume. Although there were at least 6,000 web shops operating in Hungary, the five largest online retailing brands accounted for a combined 20% share of internet retailing in 2016. The most popular product categories were information technology and entertainment electronics, clothes, toys/gifts, and household machinery/white goods. The category was led by Tesco with a 4% market share, followed closely by retailers with a focus on consumer electronics, including Extreme Digital (edigital.hu), MS-E Commerce (mediamarkt.hu) and SC Dante International (emag.hu). Based on numerous predictions, e-commerce will continue to grow rapidly in the coming years. Revenue in the e-commerce market is expected to be $2.04M in 2019 and is projected to show an annual growth rate (CAGR 2017-2021) of 10.6%.

Sub-Sector Best Prospects

Following global trends, devices for private use have shifted in Hungary from desktops and laptops to tablets. Consequently, retail sales of the former have fallen. However, the corporate and state sectors differ in these attributes. As tablets could not entirely replace the administrative and secure solutions of desktops and laptops, these latter devices remained popular among private and governmental organizations. As such, these purchases kept business computer sales afloat despite consumer trends. The state sector is an important client in Hungary for computers, as the underdeveloped IT infrastructure of the governmental sector and educational institutions are a target for EU-financed IT-development projects, along with state money allocated for such projects.

By 2021, all consumers across the country will have access to the internet for personal use through their mobile or broadband connection at home, as the result of large infrastructure development.

As e-commerce became more and more significant, hypermarkets such as Tesco and Auchan launched online sales. Among the different offline retail formats, hypermarkets enjoyed a noticeable share given that consumers tend to save time by doing their regular grocery shopping and the purchase of electronics products at the same place. The strong overall position of hypermarkets in the Hungarian retail space ensures continuous customer flows. However, larger offline channels were losing share to online retailing which dynamically grew over the last few years. Internet retailing was strengthened by the entrance of a notable player, eMag a few years ago, and an established presence online by traditional offline retailers Euronics and Media Markt. For online sales in general, cash payment upon delivery dominates, but bank card payment upon delivery could be the future.

From March-June 2020, online purchases in Hungary surpassed all other forms of spending, according to a Mastercard survey. Thirty-five percent of Hungarians said they had never bought as much online as during this time, along with 57% of Europeans.

According to the survey, Hungarians increased their presence in the virtual world during the Covid-19 public health crisis related lockdown: 40% more were using streaming services, watching movies or series on steaming platforms; 20% were taking fitness classes; and 15% took virtual tours of museums, travel destinations, and other sites of interest. Attendance at virtual stand-up comedy shows and concerts was also highly popular in Hungary, resulting in a 30% increase of online viewing. Unsurprisingly, keeping in touch with other people has also shifted to online platforms, with 73% of Hungarians conducting video calls either with their families or as part of their jobs.

Hungarians have also made use of the extra time spent at home to learn new online skills or to learn new skills online. Thirty-nine percent of Hungarians have tried online banking for the first time during the lockdown; 25% have learned how to cook online or have taken online courses. As for e-commerce, the number of people buying basic goods online increased by 36%, with the most popular categories across Europe as books (32%), hair-cutting tools (19%), and fitness equipment. In Hungary, online sales of books (23%) were followed by kitchen appliances (21%), and hair color and IT equipment (both 12%).

The survey also found that online customer habits closely reflected real-life behavior: 83% of Hungarians and 81% of Europeans who regularly hunt for major discounts in Do-It-Yourself (DIY) stores are also spending hours online looking for the best deals. About half of European customers remain loyal to stores frequented before the crisis, while in Hungary, 65% stick to their tried and trusted retailers.

Regarding security, 65% of Europeans and 59% of Hungarians have developed concerns about becoming victims of online fraud. To make purchases safer, 81% of Europeans and 84% of Hungarians bought from known sellers when possible, and more than 80% check website or customer reviews before buying

Opportunities

Growth will be supported by the fact that replacement cycles of many consumer electronics in households have been lengthened by the economic crisis, and such products are reaching the end of their lifecycle. The most successful consumer electronics categories will be relatively new ones featuring innovative products such as smartphones, tablets, and LCD TVs. On the other hand, growth will be slow for products that are heading towards the end of their lifecycle such as feature phones, DVD players, in-car navigation systems and others.

Disposable income increases create potential for a higher value sales mix with more premium brands and flagship models. Huawei's loss of access to Google services opens the door to smartphone rivals to build sustainable scale in a mature market. PC vendors will benefit from the end of extended Windows 7 support in 2020 that will be a trigger for investment in PC stock in the private and public markets.

Sony and Microsoft are launching their next-generation games consoles, with the next cycle set to begin with the launch of PlayStation 5 in late 2020. There is a potential for newer technologies to move towards mass market status, such as smart watches and fitness trackers, smart assistant devices, and possibly AR/VR.

In terms of IT, low penetration for enterprise software in some verticals, including enterprise resource planning, customer relationship management, and supply chain management means a potential growth market for vendors, particularly as software-as-a-service (SAAS) development deepens the market. Harmonized EU rules on data privacy and security could catalyze the development of the local cloud computing market and create the potential for Hungary to develop into a regional hub. Companies will have to invest in key IT services and products to compete with EU rivals, with cloud delivered services expected to outperform. Spending on IT security products is expected to grow rapidly in the coming three years.

Web Resources

- eNET Internet Research and Consulting Ltd.
- GfK Hungária, BMI
- Budapest Business Journal, BMI
- www.customstoday.com
- Euromonitor International Country Report, and BMI

Franchising

Overview

Franchising in Hungary started in the 1990s, after the collapse of the old political regime in 1989, by the opening of important hotel chains and by the entry of the most iconic fast food multinational, McDonald’s. Since that time, franchising has been developing swiftly throughout the country. There are Hungarian franchisors known in the region such as beauty salons, fashion outlets, real estate agencies, and more.

The Hungarian franchise community consists of approximately 350 companies, half of which are foreign-owned. The number of franchisees is approximately 20,000 and more than 100,000 employees work in the franchise sector including suppliers. With these numbers Hungary is ahead of its neighboring countries. These networks, some of which have only a few members and some which link thousands of businesses, have combined revenues running into the billions of dollars. Twenty-six percent of the foreign-owned franchise networks in Hungary are owned by US companies. The U.S. hamburger chain McDonald's can be considered the leader of fast-food franchisors in Hungary and Central Europe, as it has pursued a very successful transnational strategy, and has almost 100 stores in the country. Others that have found success in the Hungarian market include Kentucky Fried Chicken, Burger King, Subway, Starbucks (AmRest), Curves, Hertz, Avis, and Budget.

Local franchises offering a wide range of services are also surging. Hair salons (BioHair), pharmacies (BENU, Alma Pharmacies), bakeries (Fornetti, P&P Pékáru, Pékpont), wine shops (Borháló), real estate chains (Duna House, Otthon Centrum), and food supplements are among the most successful ones.

There have also been some franchising exits from the Hungarian market, due to different tastes and practices. Dunkin' Donuts, Dairy Queen, Wendy's, and New York Bagel are examples of U.S. companies with a short-lived presence in Hungary.

Sub-Sector Best Prospects

According to industry experts, adopting local characteristics, selling sub-franchises, providing financing, setting lower master franchise fees and/or using foreign master franchisees are keys to success in the Hungarian market. Franchising is still relatively underdeveloped in certain segments such as home healthcare, elderly care, and automotive services, compared to American or Western European standards. As a proportion of the retail sector, Hungary lags considerably behind the United States, Japan, and the rest of the EU. Relatively inefficient delivery of goods and services and a developing middle class suggest that there are significant, growing opportunities in franchising.

Opportunities

- Food (family casual, fast food, ethnic food, and healthy quick service restaurants)
- Home Healthcare
- Automotive Services (quick oil change or auto tuning)
- Hair and nail services
- Janitorial services
- Mobile pet grooming
- Dry cleaning and laundry
- Education such as coding and language

- Elderly care

There are many franchise companies operating in Hungary, primarily because of the country's favored location in the heart of Europe, its relatively cheap workforce, and the growing demand for quality products and services. Local Hungarian businesses are not known for good customer service, so a franchise system with good customer service in almost any sector can find opportunities in the Hungarian market. Potential franchisors should observe local market characteristics, conditions and taste (in case of food franchise). The average purchasing power/capita equals EUR 7,416, ($8,745) in Hungary (50.3% of the European average) whereas it stands at EUR 9,230 ($10,885) in Budapest – a 12% increase compared to 2018, 62.6% of the European average.

Hungarian consumers tend to prefer innovative products that fit local traditions and taste too. IT-related franchises are becoming more and more popular, and so are clothing brands, but there are also blank spots on the map of fast food too. For example, there are no doughnut or pie chains operating in the Hungarian market. It is also a huge plus if the customer is familiar with the name of the brand, so developing brand awareness from an early stage is key to achieving success in the market.

Franchises with low initial investments (in the range of US$100,000-150,000) continue to encounter more market opportunities than those requiring larger investments (US$500,000+).

Web Resources

- Hungarian Franchise Association
- Franchise Portal

Agricultural Sectors

Hungary is a resilient, export-driven economy with the second fastest economic growth in the EU in 2019. Growth in real wages has remained unbroken, resulting in increasing purchase power and demand for imported goods in the agricultural sector and the food industry too. For detailed information, please consult the US Department of Agriculture's (USDA) Foreign Agricultural Service (FAS) Exporter Guide for Hungary. Useful information is also available to exporters in FAS Budapest's Food and Agricultural Import Regulations and Standards (FAIRS) narrative and FAIRS export certificate report.

Customs, Regulations and Standards

Trade Barriers

An estimated 95% of products imported into Hungary no longer require an import permit; however, licenses are still required for arms/military equipment, explosives and pyrotechnic products, wood products, various chemicals and some industrial products. A list of products in detail requiring import license and national approval is available on the Hungarian Trade Licensing Office website.

While harmonization of EU legislation can facilitate access to the EU Single Market, manufacturers should be aware that regulations (mandatory) and technical standards (voluntary) might also function as barriers to trade if U.S. standards are different from those of the European Union.

Import Tariffs

Hungary joined the European Union in 2004 and adopted the EU's CXT rates, resulting in an average tariff level of 3.6% - TARIC.

Tariff assessment and all other customs procedures take place at the first port of entry into the EU. However, Hungary still collects VAT on all goods that have Hungary as their final destination. The VAT on most goods and services is 27%. In addition to the 27% VAT, there is an 18% VAT category for certain products and services such as baking products, commercial accommodation, and internet services. There is also a 5% VAT category for raw meat such as pork, poultry, fish and veal, as well as fresh dairy products.

Import Requirements and Documentation

Many EU member states maintain their own list of goods that are subject to import licensing. In Hungary, import and export licensing is tasked to the Hungarian Trade Licensing Office.

The Single Administrative Document

The official model for written declarations to Customs is the Single Administrative Document (SAD). Goods brought into the EU customs territory are, from the time of their entry, subject to customs supervision until customs formalities are completed. Goods are covered by a Summary Declaration which is filed once the items have been presented to customs officials. The customs authorities may allow a period for filing the Declaration which cannot be extended beyond the first working day following the day on which the goods are presented to customs.

The Summary Declaration is filed by either:

- the person who brought the goods into the customs territory of the European Community or by any person who assumes responsibility for carriage of the goods following such entry; or
- the person in whose name the person referred to above acted.

The Summary Declaration can be made on a form provided by the customs authorities. However, customs authorities may also allow the use of any commercial or official document that contains the specific information required to identify the goods. The SAD serves as the EU importer's declaration. It encompasses both customs duties and VAT and is valid in all EU member states. The declaration is made by whoever is clearing the goods, normally the importer of record or his/her agent.

European Free Trade Association (EFTA) countries including Norway, Iceland, Switzerland, Turkey and Macedonia also use the SAD. Information on import/export forms is contained in Council Regulation (EEC) No. 2454/93, which lays down provisions for the implementation of the Community Customs Code (Articles 205 through 221). Articles 222 through 224 provide for computerized customs declarations and Articles 225 through 229 provide for oral declarations.

Labeling and Marking Requirements

An overview of EU mandatory and voluntary labeling and marking requirements has been compiled in a market research report available online.

Hungary has strict labeling requirements for specific product groups. The primary requirement for consumer goods is that the product information must be in Hungarian. This can be a sticker placed on the existing packaging. The following information must appear on the label of foods:

- Product type (trademarks, brand names may not substitute the generic/product name but may be used in addition to the product name).
- List of ingredients must show all ingredients (including additives) in descending order of weight as recorded at the time of their production and designated by their specific name. In case some products encompass ingredients likely to cause allergic reactions or intolerances, a clear indication is to be given on the label with the word “contains” followed by the name of the ingredient. However, this is not necessary provided the specific name is included in the list of ingredients.
- Net quantity in metric units.
- Date of minimum durability.
- Special conditions for storage or use (if applicable).
- Name or business name and address of the manufacturer, packager or importer established in the European Union.
- Country of origin or provenance (if outside the EU).
- Alcohol content for beverages containing more than 1.2% by volume.

The following information must appear on the label of cosmetics and household chemicals:

- Name or business name and address of the manufacturer, packager or importer established in the European Union.
- Country of origin or provenance (if outside the EU).

- Name and intended function of the product, except when it is evident from the appearance and instructions for use, when it is reasonable.
- Shortest time of preserving its quality (e.g.: best before year/month).
- When needed, prescription of storage conditions, important from the point of view of quality, maintenance.
- Precautions required in the case of consumer or professional use.
- Enumeration of all components including specific references to technical (e.g. electric) certificates issued by Hungarian authorities must be attached to the individual packing.

US Export Controls

Most high technology can be sold to Hungary without a U.S. export license, but some remain controlled. Depending on the product, export licenses may be issued by the U.S. Department of Commerce's Bureau of Industry and Security (BIS), the Department of State, or the Department of Defense. As licensing can be a lengthy process, a U.S. firm should ensure that they do not commit to a delivery date until an export license has been approved.

The United States imposes export controls to protect national security interests and promote foreign policy objectives related to dual-use goods through implementation of the Export Administration Regulations (EAR). The Bureau of Industry and Security (BIS) is comprised of two elements: Export Administration (EA), which is responsible for processing license applications, counselling exporters, and drafting and publishing changes to the Export Administration Regulations; and Export Enforcement (EE), which is responsible for the enforcement of the EAR. BIS works closely with U.S. embassies, foreign governments, industry, and trade associations to ensure that exports from the United States are secure and comply with the EAR. BIS officials conduct site visits, known as End-Use Checks (EUCs), globally with end-users, consignees, and/or other parties to transactions involving items subject to the EAR to verify compliance.

An EUC is an on-site verification of a non-U.S. party to a transaction to determine whether the party is a reliable recipient of U.S. items. EUCs are conducted as part of BIS's licensing process, as well as its compliance program, to determine if items were exported in accordance with a valid BIS authorization or otherwise consistent with the EAR. Specifically, an EUC verifies the *bona fides* of transactions subject to the EAR, to include: confirming the legitimacy and reliability of the end use and end user; monitoring compliance with license conditions; and ensuring items are used, re-exported or transferred (in-country) in accordance with the EAR. These checks might be completed prior to the export of items pursuant to a BIS export license in the form of a Pre-License Check (PLC), or following an export from the U.S. during a Post-Shipment Verification (PSV).

BIS officials rely on EUCs to safeguard items subject to the EAR from diversion to unauthorized end uses/users. The verification of a foreign party's reliability facilitates future trade, including pursuant to BIS license reviews. If BIS is unable to verify the reliability of the company or is prevented from accomplishing an EUC, the company may receive, for example, more regulatory scrutiny during license application reviews or be designated on BIS's Unverified List or Entity List, as applicable.

BIS has developed a list of "red flags", or warning signs, , and compiled "Know Your Customer" guidance intended to aid exporters in identifying possible violations of the EAR. Both of these resources are publicly available, and their dissemination to industry members is highly encouraged to help promote EAR compliance.

BIS also provides a variety of training sessions to U.S. exporters throughout the year. These sessions range from one to two-day seminars that focus on the basics of exporting to coverage of more advanced, industry specific topics. Interested parties can check a list of upcoming seminars and webinars or reference BIS provided online training.

BIS and the EAR regulate transactions involving the export of "dual-use" U.S. goods, services, and technologies. For advice and regulatory requirements, exporters should consult the other U.S. Government agencies which regulate more specialized items. For example, the U.S. Department of State's Directorate of Defense Trade Controls has authority over defense articles and services, or munitions. A list of other agencies involved in export control can be found on the BIS website or in Supplement No. 3 to Part 730 of the EAR.

The EAR is available on the BIS website and on the e-CFR (Electronic Code of Federal Regulations) and is updated as needed.

The Consolidated Screening List (CSL) is a list of parties for which the United States Government maintains restrictions on certain exports, reexports or transfers of items. The CSL consolidates eleven export screening lists of the Departments of Commerce, State and the Treasury into a single data feed as an aid to industry in conducting electronic screens of parties to regulated transactions. Exporters are encouraged to classify their items prior to export, as well as consult the CSL to determine if any parties to the transaction may be subject to specific license requirements.

Temporary Entry

For temporary entry of goods, Hungary accepts an ATA Carnet, an international customs document that simplifies customs procedures for the temporary importation of commercial samples, professional equipment, and goods for exhibitions and trade fairs. The ATA Carnet facilitates international business by minimizing extensive customs procedures and eliminating payment of duties and VAT. The U.S. Council for International Business (USCIB) has been designated by the U.S. Treasury Department as the sole issuer and guarantor of ATA Carnets in the United States. For more information, visit the USCIB at http://www.uscib.org/ or call (202) 702- 5078.

Goods temporarily imported into Hungary must be kept in a bonded warehouse until re-export. Customs authorities determine the period within which these goods must be re-exported or assigned a new customs-approved treatment or use. The maximum period the goods may remain under temporary importation status is 24 months, although customs authorities may shorten or extend this. A temporary import shipment does not have to be re-exported in total. Any portion of the shipment destined for the domestic or EU market, however, is subject to duties and VAT at the time of importation.

Prohibited and Restricted Imports

An estimated 95% of products imported into Hungary no longer require an import license; however, licenses are still required for some goods like arms/military equipment, explosives and pyrotechnic products, security paper, uranium, radioactive isotopes, etc. - Hungarian Trade Licensing Office

Customs Regulations and Contact Information

European Union - Customs Regulations

European Union – Taxation and Custom

European Union – Business Customs

Standards for Trade

Overview

Products tested and certified in the United States to American standards are likely to have to be retested and re-certified to EU requirements as a result of the EU's different approach to the protection of the health and safety of consumers and the environment. Where products are not regulated by specific EU technical legislation, they are always subject to the EU's General Product Safety Directive as well as to possible additional national requirements.

European Union legislation and standards created under the New Approach are harmonized across the member states and European Economic Area countries in order to allow for the free flow of goods. The New Approach is superseded by the New Legislative Framework (NLF) of 2010 which was put in place to serve as a blueprint for existing and future CE marking legislation.

While harmonization of EU legislation can facilitate access to the EU Single Market, manufacturers should be aware that regulations (mandatory) and technical standards (voluntary) might also function as barriers to trade if U.S. standards are different from those of the European Union.

Product Certification

To sell products in the EU market as well as in Norway, Liechtenstein, and Iceland, U.S. exporters are required to apply CE marking whenever their product is covered by specific product legislation. CE marking product legislation offers manufacturers various choices and requires decisions to determine which safety/health concerns need to be addressed, which conformity assessment module is best suited to the manufacturing process, and whether or not to use EU-wide harmonized standards. There is no easy way for U.S. exporters to understand and go through the process of CE marking, but hopefully this section provides some background and clarification.

Products manufactured to standards adopted by the three officially recognized European Standardization Organizations (CEN, CENELEC or ETSI) and referenced in the Official Journal as harmonized standards, are presumed to conform to the requirements of EU Directives. The manufacturer then applies the CE marking and issues a declaration of conformity. With these, the product will be allowed to circulate freely within the EU. A manufacturer can choose not to use the harmonized EU standards, but then must demonstrate that the product meets the essential safety and performance requirements. Trade barriers occur when design, rather than performance, standards are developed by the relevant European standardization organization and when U.S. companies do not have access to the standardization process through a European presence.

The CE marking addresses itself primarily to the national control authorities of the member states, and its use simplifies the task of essential market surveillance of regulated products. As market surveillance was found lacking, the EU adopted the New Legislative Framework, which went into force in 2010. As previously mentioned, this framework is like a blueprint for all CE marking legislation, harmonizing definitions, responsibilities, European accreditation and market surveillance.

The CE marking is not intended to include detailed technical information on the product, but there must be enough information to enable the inspector to trace the product back to the manufacturer or the local contact established in the EU. This detailed information should not appear next to the CE marking, but rather on the declaration of conformity (which the manufacturer or authorized agent must be able to provide at any time, together with the product's technical file), or the documents accompanying the product.

Accreditation

European Accreditation

EUR-Lex – Official Journal of the European Union

European Commission – Harmonized Standards

European Commission – Growth – Single Market

Standards Coordination Office – Notify Us

Trade Agreements

For a list of trade agreements with the EU and its member states, as well as concise explanations, please see

http://ec.europa.eu/trade/policy/countries-and-regions/agreements/

Web Resources

Hungarian Customs and Finance Guards

Hungarian Licensing and Export Control Office

Hungarian Standards Office

EU and U.S. websites*:*

European Union – Regulation Resources

Licensing Requirements for Professional Services

An estimated 95% of products imported into Hungary no longer require an import license; however, licenses are still required for some goods like arms/military equipment, explosives & pyrotechnic products, security paper, uranium, radioactive isotopes, etc. - Hungarian Trade Licensing Office

There aren't any licensing requirements for professional services in Hungary.

Selling US Products and Services

Distribution and Sales Channels

Not only have Budapest and its surrounding area become a preferred location for multinationals to establish headquarters in Central and Southeast Europe, but other locations throughout the country have multinational companies present as well, including the cities of Debrecen, Gyor, Szeged, and Szekesfehervar. While Hungary's retail and wholesale distribution operations are improving compared to Western Europe, some weaknesses remain. For example, the trading company structure is relatively undercapitalized, and usually combines both retailing and wholesaling. In 2019, the overall volume of retail trade in Hungary increased by 6.7% compared with 6.0% in 2018.

Unlike the rest of Hungary, Budapest's retail sector has many prestigious superstores, shopping centers, hypermarkets, and supermarkets. The most successful distribution companies in Hungary are wholly owned subsidiaries of international chains such as Auchan, Tesco, Lidl, Aldi, DM, Rossmann, OBI, Praktiker, and IKEA just to name a few. The typical distribution channel in Hungary is for importer-wholesalers to service retailers and end-users directly. B2B and B2C are rapidly expanding. Hungarian agents or distributors usually look to and rely on foreign partners to share the marketing and promotion expenses and to provide training and financing. Until recently, small, independent, family-owned shops dominated Hungary's retail sector, especially in the less populated parts of the country. Thousands of these shops continue to serve rural populations, posing logistical challenges for distributors and suppliers. However, medium-sized, financially well-established heavy-discount chains are making headway in Hungary's retail sector with retail units present in smaller villages and other settlements. Such chains include Real grocery stores having close to 2,300 shops and CBA with approximately 3,100 outlets nationwide. The second largest retail chain in Hungary is Coop supermarket with approximately 3,000 stores. Both CBA and Coop are fully Hungarian-owned and have expanded into the neighboring regions. Discount food chain stores are also present in the market. Lidl has 169 stores nationwide; Aldi, 128; Penny Market, 213; and Spar/Interspar operates close to 549 stores.

At the end of 2019, 41 shopping malls operated in Budapest, and another 80 outside of Budapest around the country. The largest malls in Budapest are Allee, Arena, Arkad, Mammut, MOM Park and WestEnd.

The use of cash is still largely dominant in Hungary but the number of retail transactions with bank or debit cards (Visa, Amex, and Mastercard) has grown significantly in recent years. In 2019, the domestic value of debit card usage grew by 23% compared to 2018. Particularly in cities, consumers tend to use bankcards in malls, hyper- and super-markets, petrol stations, restaurants, and to pay for accommodation during holidays. Card payments account for roughly 38-40% of retail payments in Hungary, compared with 75-80% of purchases across Western Europe. Hungarian consumers pay by bank cards three times more frequently than by cash, still the value of cash withdrawals is three times as big as that of card payments. All commercial banks in Hungary replaced the magnetic bank cards with the chip-based bank cards and have been offering no-fee cash withdrawals twice a month to their clients. The low percentage of debit card usage is partly because of the relatively low coverage of terminals. However, according to a new governmental decision that will enter into force in January 2021, all shops possessing online cash registers will need to offer non-cash payment opportunities. Checks are not used at all. A wide and reliable network of automatic teller machines (ATMs) operate throughout Hungary. The use of these ATMs has also been favored by Hungarian consumers.

Companies interested in investment and trade issues can also contact the Hungarian Investment Promotion Agency (HIPA) and the Hungarian Export Promotion Agency (HEPA) . HIPA has the authority to enhance foreign direct investments into Hungary, while the Trade House strives to seek out new markets and opportunities for Hungarian enterprises and supports Hungarian SMEs with business development services such as export promotions abroad.

eCommerce

Citing the boost e-commerce could give Hungary's productivity and innovation, the Hungarian Government continues to place a high priority on advancing this sector. E-commerce had a slow start in Hungary but has been booming in recent years. The most developed segment is E-banking. There are currently 6.1 million online shoppers in Hungary.

E-commerce in Hungary expected to have a $2.04B total turnover in 2019 representing 6.2% of the total retail trade. Revenue is expected to show an annual growth rate of 7.3%, resulting in a market volume of $2.706B by 2023. Online retail and web-shop concepts have been growing steadily since 2010. According to Eurostat data, around 62% of Hungarians shopped online in 2018, a figure which remains below the EU average of 69%. Products purchased most frequently online include books, coupons, IT and electronic gadgets, insurance services, e-tickets, and holiday reservations. More than 70% of orders included home delivery, and most Hungarian online shoppers prefer cash payment upon delivery. Both males and females use online retailing equally. Most e-commerce revenue, nearly 40%, is generated in the last two months of the year before the holidays (Black Friday and Christmas).

In addition, the average value of the online shopping cart is higher than that of traditional purchases. The average cart size increased from HUF 7,500 ($27) to HUF 11,600 ($42) during the last five years. The average revenue per user per year currently amounts to $300.70. Online customers are more inclined to spend a bigger sum in one go. In 2017, there were roughly 12,800 web shops registered in Hungary which is only 1.6% of the total number of online stores in Europe (Source: eCommerce News).

According to GKI Digital, the best e-retailers in Hungary include: Extreme Digital, Alza, eMAG, Aqua, Mall, Media Markt, Tesco online web-shop and Libri-Bookline. The largest e-retailers had a total turnover of HUF 360 billion sales in 2017. More information is on the EU Regulations website.

Selling Factors/Techniques

Success in the Hungarian market is difficult without an in-country representative, agent, or distributor. While marketing tools serve to introduce a product or service, personal visits carry much more weight in Hungary. English, German, and French are often spoken by younger business managers and are more prevalent in larger firms.

U.S. companies in Hungary are still advised to have their brochures and information professionally translated and to have a translator on the spot during business meetings if needed.

Hungarian companies can access corporate loans at favorable rates and conditions to boost their sales or expand their manufacturing operations and business activities. The annual growth rate of total corporate loans grew from 10% in 2018 to 14.5% in 2019. On the other hand, the inflation rate was 2.8% in 2018 and 3.4% in 2019 in Hungary due to increasing price-pressure in the growing economy. (Source: https://www.portfolio.hu/gazdasag/20200114/heteves-csucsra-ugrott-az-inflacio-412375)

These two factors usually benefit foreign firms. However, the Hungarian National Bank's Funding for Growth Scheme (NHP) with an interest rate capped at maximum 2.5% has benefited several local firms, despite the fact that some of the lending was initially put into bank deposits or was used to purchase government bonds taking advantage of the arbitrage opportunity.

U.S. companies can mitigate financing risks and better compete with EU firms by directing their Hungarian customers to services like those of the U.S. Export-Import Bank.

Because business in Hungary is based upon personal relationships and trust, U.S. exporters are encouraged to visit potential Hungarian customers when presenting a proposal and discuss all conditions of future dealings. Face-to-face meetings are essential to successful long-term business cooperation in Hungary. The U.S. Commercial Service Budapest, through its Gold Key Service and International Partner Search reports, can determine the export market potential in Hungary before U.S. firms commit resources.

Trade Financing

Hungarian businesses tend to be price conscious. Success for U.S. exporters requires a flexible pricing strategy, by working with Hungarian representatives to keep import costs low. With Hungary's accession to the European Union in 2004, Hungary adopted the EU's common external tariff (CXT) rates. Tariff assessment and all other customs procedures take place at the first port of entry into the EU.

Hungary's Value Added Tax (VAT) sharply increases the price of U.S. exports for Hungarian consumers. The Value-Added Tax (consumption tax) is 27% on most products and services. There is a reduced 5% VAT on certain meat products such as pork and dairy products.

The rate of inflation was 2.8% in 2018 and 3.4% in 2019. Fluctuations in the exchange rate of the Hungarian Forint to other currencies make planning very difficult. Much of the population was indebted in foreign currencies (mainly EUR and Swiss Franc), so the weakening of the Forint also significantly raised the burden of debtors including households, the business sector, as well as the government. The government's effort to increase exports by weakening the Forint seems to have stabilized expectations in the future.

Foreign companies operating in price-regulated sectors, such as telecom, energy, pharmaceuticals and retail suffered decreased margins due to sector taxes and other austerity measures, as well as government delays over the past few years.

After joining the EU, the numerous EU-oriented reforms have removed price controls on most utilities. By the early 2000s, the Government of Hungary has largely deregulated utilities and have brought up, or at least come closer, to EU pricing levels for electricity, gas and wastewater prices, which resulted in a significant price increase both for households and businesses. However, in 2013, the Government of Hungary introduced a 10% decrease in retail utility prices to consumers for electricity and gas heating and another 10% retail price decrease later that year on water and sewage services as part of the country's public utility rate cut program and that of protecting arable land in the country. Most utilities were re-nationalized including electricity, gas, water and sewage to provide favorable rates to consumers. In other sectors such as telecommunications, cable or digital TV services, and internet services, stiff competition continues among service providers.

Transparency International (TI) and other anti-corruption watchdogs have highlighted EU-funded development projects as one of the largest sources of corruption in Hungary. A TI study found indices of corruption and overpricing in up to 90% of EU-funded projects. A Corruption Research Center Budapest study based on public procurement data between 2010-2016 revealed that the massive influx of EU funds reduced competition and increased levels of corruption risk and overpricing in public procurements. According to the study, EU-funded tenders perform poorly in regard with corruption risks, competitive intensity, and transparency, compared with Hungarian-funded tenders. Besides their positive impact on GDP growth and development, EU funds in Hungary contribute to the system of political favoritism and fuel crony capitalism, the study concluded. Find more at EU Pricing.

Methods of Payment

Hungary's EU-harmonizing reforms have created a financial environment where virtually all capital-related institutions, products, and services can be found. The Hungarian Forint has been fully convertible for all financial transactions since 2001, and both the Hungarian financial market and capital market transactions are fully liberalized.

The National Bank of Hungary (Magyar Nemzeti Bank – MNB) is the central bank and a member of the European System of Central Banks (ESCB). The MNB and the members of its decision-making bodies perform their duties and carry out their obligations independently from the government. With the exception of the European Central Bank, the MNB (and the members of its decision-making bodies) may not ask for or follow instructions from the government, the institutions and bodies of the European Union, the governments of other EU member states or any other institution or body.

According to Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Financial Enterprises Act), credit institutions are financial institutions which collect deposits and provide credit lines and loans and perform other financial services. A commercial bank may only operate in Hungary as a company limited by shares (Rt.) or as a branch office of a foreign bank. In the case of a branch office of a foreign bank, a license for banking activities issued by its foreign authority is also required. The Financial Enterprises Act determines the range of financial services that commercial banks may provide.

In Hungary, foreigners may only perform financial services in one of two ways: by establishing a company limited by shares and registered in Hungary, or by founding a registered branch office. Banks - including the branch office of foreign credit institutions - may be founded with a minimum of HUF 2 billion (about $7 million) in initial capital. A foreign registered credit institution may also establish bank representation but may not perform any kind of business activity.

Since Hungary's accession to the European Union, credit institutions registered in another EU member state may engage in cross-border services.

Financial institutions whose controlling interest is owned by foreign professional investors constitute more than 90% of the registered capital of the sector including 35 commercial banks (see their list on the website of the Hungarian Banking Association – www.bankszovetseg.hu/tagjaink.cshtml?lang=eng. The Hungarian Development Bank – a bank offering favorable credit facilities to Hungarian businesses implementing economic development projects – and Eximbank – a bank serving Hungarian exporters by providing them effective financing and insurance facilities – have been owned by the state ever since their founding in 1993. In 2015, MKB and Budapest Bank became state property, increasing state-ownership to more than 50% of the banking sector in Hungary. Although foreign investors had controlled 80% of the banking sector in Hungary, this dropped down to 47% in 2016. The dominance of foreign ownership has been crucial in upgrading the formerly one-level banking sector to a double-level one which meets international standards. The U.S. exporter should be aware that access to capital in Hungary is still difficult and limited, compelling many Hungarian SMEs to depend on self- financing, including payments for imports. For this reason, U.S. exporters tend to offer 60-day or 90-day payment terms to their Hungarian customers only after establishing a track record for payments.

A bank account at a commercial bank is required to register and run a company in Hungary. Wire transfers are used for more than 80% of payment transactions, and new customers are sometimes required to pay in advance. A letter of credit is often used for more significant and high-value first transactions before mutual trust develops between partners. Credit cards are also used but mostly for individual purchases. The largest commercial banks in Hungary are: OTP - Hungarian Savings Bank, MKB, Commercial and Credit Bank (K&H), UniCredit, Erste, Raiffeisen, Budapest Bank and CIB Bank. They are all members of the Hungarian Banking Association.

The largest debt collection firms, company rating and credit management agencies in Hungary are:

Dun & Bradstreet

Intrum Justitia

Creditexpress

Sigma Collection

Coface Intercredit

Euler Hermes

How Does the Banking System Operate?

The Hungarian banking system is a two-tiered banking system, with the MNB occupying the first level and has the primary objective of reaching and maintaining price stability. The Central Bank's rights and duties include forming and implementing the country's monetary policy, managing the production and distribution of the Forint, and managing the accounts of commercial banks. Unlike the Federal Reserve, the MNB is only allowed to contribute to the government's economic goals if the measures don't pose a threat to price stability.

On the second level are the credit institutions - including banks, credit unions and saving cooperatives. They collect deposits and offer further financial services for Hungarian citizens and businesses. Please see above for a list of the major commercial banks in Hungary.

Foreign-Exchange Controls

There are no foreign exchange controls in Hungary.

U.S. Banks and Local Correspondent Banks

At present, Citi is the only U.S. bank operating in Hungary but since Citi sold its consumer banking business in 2015 it only offers commercial banking services in Hungary.

The U.S.-based BlackRock, the world's largest investment management company, entered Hungary in 2017 with a global technology and innovation hub in Budapest.

Protecting Intellectual Property

In 2003, Hungary acceded to the European Patent Convention and has amended the Hungarian Patent Act accordingly. Act CII of 2003 modified the Hungarian Copyright Act and the Hungarian Design Act to bring them in line with the relevant EU legislation. The Hungarian Patent Office implemented the EU Copyright/Information Society Directive. Hungary implemented Council Regulation 1383/2003, concerning customs action against goods suspected of infringing certain intellectual property rights. Further, a government decree established a customs task to accept claims from producers whose trademarks or copyrights were infringed.

Hungary is also a party to the WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement and most other major international IPR (intellectual property rights) agreements, including the most recent World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performance and Phonograms Treaty.

Hungary's National Board against Counterfeiting and Piracy established in 2008, has promoted collaboration on IPR issues between the Government and the private sector, and issued a two-year IPR strategy to combat counterfeiting and piracy. The United States urges Hungary to take concrete steps to implement its IPR strategy and to improve its IPR enforcement regime. Further improvements are needed to ensure that prosecutors follow through with cases against IP infringers, and that 27 judges are encouraged to impose deterrent-level sentences for civil and criminal IP infringement. U.S. copyright industries also report that internet piracy in Hungary is a major problem and note that the Government of Hungary should provide adequate resources to its law enforcement authorities to combat IPR crime, especially on the internet.

- National Intellectual Property Right Protection Agency
- Hungarian Intellectual Property Office
- Hungarian Anti-Counterfeiting Coalition (HENT)
- Business Software Alliance (BSA)

Selling to Public Sector

Hungary's Public Procurement Act CXLIII was passed in 2015. The law regulates only the various forms of procurement however, the national thresholds are always contained in the actual Budget Law. In case of a general, simplified procurement the national threshold for procurement of goods remains at HUF 8 million (Hungarian Forints), which amounts to approximately $29,000. For construction, the threshold is HUF 15 million ($55,000), and for services, HUF 8 million ($29,000). The national threshold for construction concessions amounts to HUF 100 million ($368,000) and HUF 25 million ($92,000) for services concessions.

In case of special simplified public procurement, the national threshold is HUF 50 million ($184,000) for procurement of goods and services, and HUF 100 million ($368,000) for construction investments.

The EU thresholds require open tenders (published in TED – Tenders Electronic Daily) for purchases of goods and services (except in R&D and telecom) exceeding EUR 130,000 (about $152,913) when procured by Hungary's Ministries, the Prime Minister's Office, or the Centralized Public Procurement Agency (CPPA). For all other central or local government institutions, the open tender threshold for goods and services is EUR 200,000 (about $235,251). For construction and construction concessions, the threshold is EUR 5,000,000 (approx. $5,881,280) regardless of which public entity.

Hungary's CPPA serves more than 1,000 institutions that receive financing from the Hungarian central budget. The CPA generally requires procuring agencies to select from a centralized list of specific products and vendors. Tender announcements and decisions by Hungary's Commission of Arbitrators are published weekly in the "Kozbeszerzesi Ertesito" (Public Procurement Gazette). The Law on Public Procurement and related regulations, as well as Hungary's list of certified suppliers for public procurement projects, can also be found at this Hungarian language website. Information may also be found on the www.export.gov website, European Union-Selling to the Government article.

Financing of Projects

European Union - Project Financing

Financing Web Resources

European Union – Financing Resources

Business Travel

Business Customs

Business customs are similar to those in the United States and Western Europe. Typical Hungarian business attire is a suit. Hungarians consider a personal relationship the basis of a business connection. Business lunches, receptions, and dinners are common. First introductions are often more formal than among Americans. Hungarians usually introduce themselves starting first with their family names followed by their first names. For example: SMITH John. Business cards follow this convention. Hungarian business partners appreciate even small efforts in learning basic greetings in Hungarian. Around the Christmas holidays, Hungarian businessmen may exchange symbolic gifts generally worth less than $10.

Travel Advisory

The U.S. Department of State has not issued any travel advisories for Hungary which is generally a safe country. Nevertheless, visitors are advised to guard personal belongings. Current information on travel and living in Hungary and descriptions of typical tourist scams including establishments to avoid can be viewed on the U.S. Embassy Budapest Consular Section – U.S. Citizen Service – webpage.

Visa Requirements

U.S. citizens traveling to Hungary do not require visas. Those intending to stay for longer than 90 days will require residency permits. With certain exceptions, Americans must obtain both work and residence permits if they are employed in Hungary. Under current COVID-related circumstances travel from the U.S. to Hungary is not encouraged only in essential situation. Travelers from the U.S. are subject to 14 days of travel quarantine. Updates on COVID travel-related situation is available at the Department of State Travel Advisory website.

Any company in Hungary (even if foreign-owned) employing foreigners must apply for work permits for these employees, a process which takes 60-75 days. The Hungarian Government makes an exception for managing directors of registered, foreign-owned companies. After employees obtain a work permit, they must apply for a work visa in-person at a Hungarian embassy or consulate in their home country. The Government of Hungary generally issues visas for one year. Stricter fraud-prevention measures imposed in recent years have made this process increasingly cumbersome. Consultancy companies offer to obtain work permits and renewals for companies in Hungary. The American Chamber of Commerce in Hungary also offers these services to its members. U.S. companies that require travel of foreign businesspersons to the United States should be advised that security issues are handled via an interagency process.

Visa applicants should go to the following links:

State Department Visa Website

Consular Section, U.S. Embassy Budapest

Currency

The currency of Hungary is the Forint. At the end of July 2020, $1 converts to HUF 295.

Telecommunication

Telephone services, including long-distance phone calls, are reliable in Hungary. Budapest is served by three major cellular phone providers, T-Mobile, Telenor, and Vodafone and another three-to-four smaller ones. Hungary also has several Internet service providers: GTS Hungary, T-Home, Digi, Vodafone/UPC, and Invitel. Free hotspots or paid WiFis are available at most hotels, restaurants and even at many public places.

Transportation

Hungary has a well-developed transportation infrastructure which allows for speedy domestic travel. Railway lines crisscross the country and connect most cities. The "Inter-City" line provides first class express service to bigger cities. Timetables can be checked and reservation for rail lines can be made on Elvira – MAV Start. Hydrofoil ferries passengers on the Danube from Budapest to Vienna and Bratislava.

Hungary's highways are generally in good condition with five major express toll highways connecting Budapest with neighboring countries of Austria, Slovenia, Croatia, Serbia, and Ukraine and motorways extending to Slovakia and Romania. The total length of highways in Hungary is more than 1,500 kilometers (932 miles).

Budapest is served by an efficient public transportation system based on four subway lines supplemented by a comprehensive bus, tram, and trolley bus system. Taxis are also readily available. It is advisable to phone for a taxi from one of Budapest's major companies, rather than hailing one off the street, as it helps to ensure the appropriate fare. Uber is not available in Hungary but a similar service provider exists such Bolt Taxi. Taxis have a fixed tariff of 300 HUF/Km ($1.2/Km) in addition to the one-off basic fee of 700 HUF ($2.60) and waiting fee of 75 HUF/min ($0.3/min). A ride from the airport to the city center should typically cost around 9,000 HUF ($37) depending on traffic conditions. The Airport Shuttle offers reliable service and costs around $25. Direct shuttle buses between the hotel quarter and the airport are also available for travelers.

Language

English is regularly used for business in Hungary, especially among multinational firms. However, Hungary's smaller and state-owned firms may have managers who speak limited English. In this case, an interpreter may be used for meetings, though it is wise to discuss this in advance. German is the second most common foreign language.

Health

Hungary enjoys good standards of health and a low frequency of diseases. Hungarian law requires no vaccinations for Americans to travel or live there. Due to many U.S. medical insurance policies not covering expenses incurred abroad, it is advisable to purchase overseas coverage before traveling to Hungary. Please note that Medicare benefits are not payable for services rendered outside the United States. Hungarian doctors and hospitals generally require pre-payment upon completion of services rendered. In modern units of private hospitals and health clinics bank cards are accepted.

Local Time, Business Hours and Holidays

Local time: GMT + 01:00 or 6 hours ahead of Eastern Standard Time. Normal business hours are from 9:00 a.m. to 5:00 p.m. Businesses and government offices often close in the early afternoon on Fridays. Some local/small retailers are closed on Sundays.

Hungary celebrates the following holidays in 2020:

New Year's Day - January 1, 2020

Revolution Day - March 15, 2020

Easter Monday – April 13, 2020

Labor Day – May 1, 2020

Whit Monday – June 1, 2020

National Day - August 20, 2020

Republic Day - October 23, 2020

All Saints' Day – November 1, 2020

Christmas Day - December 25, 2020

Christmas Day - December 26, 2020

Temporary Entry of Materials and Personal Belongings

Duty-free status applies to personal belongings of visitors with permanent residency outside of Hungary. This includes what visitors carry or send into Hungary and intend to use during their stay. It also applies to personal belongings, except consumer durables, that permanent residents of Hungary take abroad for more than 24 hours but return. Duty-free status can only be claimed once a day. Hungarian law requires materials that temporarily enter Hungary with the intention of being returned to the United States, such as exhibition goods, to be delivered with ATA Carnet documentation and preregistered with the Hungarian Customs Authorities. Information and contact are available at the website of the Hungarian Customs and Finance Guard.

Travel Related Web Resources

Department of State – International Travel

U.S. Embassy in Hungary

WowHungary

Budapest.com – Budapest Travel Guide

Investment Climate Statement

Executive Summary

With a population of 9.8 million, Hungary has an open economy and GDP of approximately $159B. Hungary has been a member of the European Union (EU) since 2004, and fellow member states are its most important trade and investment partners. Macroeconomic indicators are generally strong: the economy grew by 4.9% in 2019. In 2020, however, government-financed rescue packages to mitigate the economic impacts of the COVID-19 pandemic increased spending. This combined with reduced, or possibly negative GDP growth due to the pandemic, has led the Government of Hungary (GOH) to revise its 2020 budget deficit target from 1% to more than 3% of GDP at the time of drafting this report. Economic and budgetary developments this year have been overwritten by the impact of the pandemic in all sections of society and the economy. The central budget debt rose by $7.1B over the first half of 2020. Ratings agencies maintained Hungary's sovereign debt at two notches above investment grade in 2020. Prior to the COVID-19 crisis the government kept the deficit below 2.5% of GDP from 2013 through 2019 and has lowered public debt from more than 80% of GDP in 2010 to 71% in 2018. Ratings agencies upgraded Hungary's sovereign debt to two notches above investment grade in 2020.

Hungary's central location and high-quality infrastructure have made it an attractive destination for Foreign Direct Investment (FDI). Between 1989 and 2018, Hungary received approximately $92B in FDI, mainly in the banking, automotive, software development, and life sciences sectors. The EU accounts for 89% of all in-bound FDI. The United States is the largest non-EU investor. The GOH actively encourages investments in manufacturing and high value-added sectors, including research and development centers and service centers. To promote investment, the GOH lowered the corporate tax rate to 9% in 2017 and the labor tax to 15.5% in July 2020, which is among the lowest rates in the EU. Hungary's Value Added Tax (VAT) however, is the highest in Europe at 27%.

Despite these advantages, Hungary's regional economic competitiveness has declined in recent years. Since early 2016, multinationals have identified shortages of qualified labor, specifically technicians and engineers, as the largest obstacle to investment in Hungary. In certain industries, such as finance, energy, telecommunication, pharmaceuticals, and retail, unpredictable sector-specific tax and regulatory policies have favored national and government-linked companies. Additionally, persistent corruption and cronyism continue to plague the public sector. According to Transparency International's (TI) 2019 Corruption Perceptions Index, Hungary placed 70th worldwide and tied with another country for 26th place out of 28 EU member states. In 2016, the GOH withdrew from the Open Government Partnership (OGP), a transparency-focused international organization, after refusing to address the organization's concerns about transparency and good governance. Both foreign and domestic investors are reporting pressure to sell their businesses to government-affiliated investors. Those who refuse to sell claim they face increased tax audits or spurious regulatory and court challenges. Additionally, some executives in Hungarian subsidiaries of U.S. multinationals have noted that the GOH's strong anti-migrant rhetoric and actions have negatively affected board members' views of Hungary, making it more difficult for the subsidiaries to obtain approval for new investments.

Analysts remain concerned that the GOH may intervene in certain priority sectors to unfairly promote domestic ownership at the expense of foreign investors. In September 2016, PM Viktor Orban announced that at least half of the banking, media, energy, and retail sectors should be in Hungarian hands. Through various tax changes, analysts say the GOH pushed several foreign-owned banks out of Hungary and increased Hungarian ownership in the banking sector to approximately 50%, up from 40% in 2010. In the energy sector, foreign-owned company share of total revenue fell from 70% in 2010 to below 50% by the end of 2019. Foreign media ownership also has reduced drastically in recent years as GOH-friendly businesses have consolidated control of Hungary's media environment. The number of media outlets owned by GOH-allies increased from around 30 in 2015 to nearly 500 in 2018. In November 2018, the owners of 476 pro-GOH media outlets, comprising between 80 and 90% of all media, donated those outlets to the Central European Press and Media Foundation (KESMA) run by (ruling) Fidesz party insiders. PM Orban exempted KESMA from scrutiny by Hungary's media and competition authorities.

As part of its pandemic response plan in 2020, Parliament passed state of emergency (SOE) legislation that gave the GOH broad authority to bypass Parliament and govern by decree. The SOE law does not have a sunset clause and will remain in effect "for the duration of the emergency." The implementation of this law continues to evolve and may have a significant impact on the investment climate in Hungary. As such, interested investors are encouraged to reach out to the points of contact listed in this report for the most up-to-date analysis of Hungary's investment climate.

Table 1: Key Metrics and Rankings

Measure	Year	Index/Rank	Website Address
TI Corruption Perceptions Index	2019	70 of 180	http://www.transparency.org/research/cpi/overview
World Bank's Doing Business Report	2019	52 of 190	http://www.doingbusiness.org/en/rankings
Global Innovation Index	2019	33 of 129	https://www.globalinnovationindex.org/analysis-indicator
World Bank GNI per capita	2018	USD amount 14,780	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

Openness To, and Restrictions Upon, Foreign Investment

Policies Towards Foreign Direct Investment

Hungary maintains an open economy and its high-quality infrastructure and central location are features that make it an attractive destination for investment. Attracting FDI is an important priority for the GOH, especially in manufacturing and export-oriented sectors. According to some reports, in other sectors, including banking and energy, however, government policies have resulted in some foreign investors selling their stakes to the government or state-owned enterprises. In 2018, net annual FDI amounted to $5.9B while total gross FDI amounted to $92B.

As a bloc, the EU accounts for approximately 89% of all FDI in Hungary in terms of direct investors and 62% in terms of ultimate controlling parent investor. Germany is the largest investor, followed by the United States, Austria, France, the United Kingdom, Italy, Japan, the Netherlands, and China. The majority of U.S. investment falls within the automotive, software development, and life sciences sectors. Approximately 450 U.S. companies maintain a presence in Hungary.

The GOH actively seeks foreign investment and has implemented a number of tax changes to increase Hungary's regional competitiveness and attract investment, including a reduction of the personal income tax rate to 15% in 2016, reducing the business income tax rate to 9% in 2017, and the gradual reduction of the employer-paid welfare contribution from 27% in 2016 to 15.5% in 2020. As of 2016, the GOH streamlined the National Tax and Customs authority (NAV) procedure to offer fast-track VAT refund to customers categorized as "low risk" based on their internal controls and previous tax record.

Many foreign companies have expressed displeasure with the unpredictability of Hungary's tax regime, its retroactive nature, slow response times, and the volume of legal and tax changes. According to the European Commission (EC), a series of progressively-tiered taxes implemented in 2014 disproportionately penalized foreign businesses in the telecommunications, tobacco, retail, media, and advertisement industries, while simultaneously favoring Hungarian companies. Following EC infringement procedures, the GOH phased out most discriminative tax rates by 2015 and replaced them with flat taxes.

In 2017, the GOH passed a regulation that gives the government preemptive rights to purchase real estate in World Heritage areas. The rule has been used to block the purchase of real estate by foreign investors in the most desirable areas of Budapest.

A 2014 law required retail companies with over $53M in annual sales to close if they report two consecutive years of losses. Retail businesses claimed the GOH specifically set the threshold to target large foreign retail chains. The EC determined that the law was discriminatory and launched an infringement procedure in 2016, which resulted in the GOH repealing the controversial legislation in November 2018. In April 2020, during the COVID-19 pandemic, the GOH issued a decree that levied sector-specific taxes on the banking and retail sectors to help finance a crisis response fund. The progressive tax on retail grocery outlets was structured in a manner that only foreign retail firms were large enough to qualify for the tax.

The GOH publicly declared that reducing foreign bank market share in the Hungarian financial sector is a priority. Accordingly, GOH initiatives over the past several years have targeted the banking sector and reduced foreign participation from about 70% before the financial crisis in 2008 to just over 50% by the end of 2018. In addition to the 2010 bank tax and the 2012 financial transaction tax levied on all cash withdrawals, regulations between 2012-2015 obligated banks to retroactively compensate borrowers for interest rate increases on foreign currency denominated mortgage loans, even though these increases were spelled out in the original contract with the customer, and were permitted by Hungarian law.

While the pharmaceutical industry is competitive and profitable in Hungary, multinational companies complain of numerous financial and procedural obstacles, including high taxes on pharmaceutical products and operations, prescription directives that limit a doctor's choice of drugs, and obscure tender procedures that negatively affect the competitiveness of certain drugs. Pharmaceutical firms have also taken issue with GOH moves to weigh the cost of pharmaceutical procurement as more important than efficacy when issuing tenders for public procurement.

The Hungarian Investment Promotion Agency (HIPA), under the authority of the Ministry of Foreign Affairs and Trade, encourages and supports inbound FDI. HIPA offers company and sector-specific consultancy, recommends locations for investment, acts as a mediator between large international companies and Hungarian firms to facilitate supplier relationships, organizes supplier training, and maintains active contact with trade associations. Its services are available to all investors. For more information, see: https://hipa.hu/main.

Foreign investors generally report a productive dialogue with the government, both individually and through business organizations. The American Chamber of Commerce enjoys an ongoing high-level dialogue with the GOH and the government has adopted many AmCham policy recommendations in recent years. In 2017, the government established a Competitiveness Council, chaired by the Minister of Economy, which includes representatives from multinationals, chambers of commerce, and other stakeholders, to increase Hungary's competitiveness. Many U.S. and foreign investors have signed MOUs with the GOH to facilitate one-on-one discussions and resolutions to any pending issues. For more information, see the Ministry of Foreign Affairs and Trade.

The US-Hungary Business Council (USHBC) – a private, non-profit organization established in 2016 – aims to facilitate and maintain dialogue between American corporate executives and the top government leaders on the U.S.-Hungary commercial relationship. The majority of significant U.S. investors in Hungary have joined USHBC, which hosts roundtables, policy conferences, briefings, and other major events featuring senior U.S. and Hungarian officials, academics, and business leaders. For more information, see the U.S.-Hungary Business Council.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign ownership is permitted with the exception of some "strategic" sectors including defense-related industries, which require special government permit, and farmland. There are no general limits on foreign ownership or control.

Foreign law firms and auditing companies must sign a cooperation agreement with a Hungarian company to provide services on Hungarian legal or auditing issues.

According to the Land Law, only private Hungarian citizens or EU citizens resident in Hungary with a minimum of three years of experience working in agriculture or holding a degree in an agricultural discipline can purchase farmland. Eligible individuals are limited to purchasing 300 hectares (741 acres). All others may only lease farmland. Non-EU citizens and legal entities are not allowed to purchase agricultural land. All farmland purchases must be approved by a local land committee and Hungarian authorities, and local farmers and young farmers must be offered a chance to purchase the land first before a new non-local farmer is allowed to purchase the land. For those who do not fulfill the above requirements or for legal entities, the law allows the lease of farmland up to 1200 hectares for a maximum of 20 years. The GOH has invalidated any pre-existing leasing contract provisions that guaranteed the lessee the first option to purchase, provoking criticism from Austria and Austrian farmers. Austria has reported the change to the European Commission, which initiated an infringement procedure against Hungary in October 2014. In March 2018, the European Court of Justice ruled that the termination of land use contracts violated EU rules, opening the way for EU citizens who lost their land use rights to sue the GOH for damages. In March 2015, the EC launched another – still ongoing – infringement procedure against Hungary concerning its restrictions on acquisitions of farmland.

The GOH passed a law on investment screening in 2018 that requires foreign investors seeking to acquire more than a 25% stake in a Hungarian company in certain "sensitive sectors" (defense, intelligence services, certain financial services, electric energy, gas, water utility, and electronic information systems for governments) to seek approval from the Interior Ministry. The Ministry has up to 90 days to issue an opinion and can only deny the investment if it determines that the investment is designed to conceal an activity other than normal economic activity. As of publication, we are not aware of any instances in which the Ministry has reviewed an investment.

Other Investment Policy Reviews

Hungary has not had any third-party investment policy reviews in the last three years.

Business Facilitation

Hungary maintains an open economy and its high-quality infrastructure and central location make it an attractive destination for investment. Attracting FDI is an important priority for the GOH, especially in manufacturing and export-oriented sectors. In 2006, Hungary joined the EU initiative to create a European network of "point of single contact" where existing businesses and potential investors can access all information on the business and legal environment, as well as connect to Hungary's investment promotion agency. In recent years, , the government has strengthened investor relations and, in addition to signing strategic agreements with key investors, established a National Competitiveness Council to discuss competitiveness challenges, formulate pro-competitiveness measures, and build constructive stakeholder relationships.

The registration of business associations is compulsory in Hungary. Firms must contract an attorney and register online with the Court of Registration. Registry courts must process applications to register limited liability and joint-enterprise companies within 15 workdays, but the process usually does not take more than three workdays. If the Court fails to act within the given timeframe, the new company is automatically registered. If the company chooses to use a template corporate charter, registration can be completed in a one-day fast track procedure. Registry courts provide company information to the Tax Office (NAV) eliminating the need for separate registration. The Court maintains a computerized registry and electronic filing system and provides public access to company information. The minimum capital requirement for a limited-liability company is HUF 3,000,000 ($10,800); for private limited companies HUF 5,000,000 ($17,900), and for public limited companies HUF 20,000,000 ($71,400). Foreign individuals or companies can establish businesses in Hungary without restrictions.

Further information on business registration and the business registry can be obtained at the GOH's information website for businesses: http://eugo.gov.hu/starting-business-hungary or at the Ministry of Justice's Company Information Service: http://ceginformaciosszolgalat.kormany.hu/index.

Hungarian business facilitation mechanisms provide equitable treatment for women but offer no special preference or assistance for them in establishing a company.

Outward Investment

The stock of total Hungarian investment abroad amounted to $29.7B in 2018. Outward investment is mainly in manufacturing, pharmaceuticals, services, finance and insurance, and science and technology. There is no restriction in place for domestic investors to invest abroad. The GOH announced in early 2019 that it would like to increase Hungarian investment abroad and it is considering incentives to promote Hungarian investment.

Bilateral Investment and Taxation Treaties

Hungary and the United States do not have a bilateral investment treaty (BIT).

Hungary has bilateral investment treaties that the following countries: Albania, Argentina, Australia, Austria, Azerbaijan, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, China, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, India, Indonesia, Jordan, Kazakhstan, Kuwait, Latvia, Lebanon, Lithuania, Luxemburg, The former Yugoslav Republic of Macedonia, Malaysia, Moldova, Mongolia, Morocco, The Netherlands, Norway, Paraguay, Poland, Portugal, Romania, Russian Federation, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, Uruguay, Uzbekistan, Vietnam, and Yemen.

Hungary has tax treaties that eliminate many aspects of double taxation with the United States and the following other countries: Albania, Australia, Austria, Azerbaijan, Belarus, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Great Britain, Greece, Hong Kong, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, The former Yugoslav Republic of Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Morocco, The Netherlands, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Korea, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, Tunisia, Ukraine, Uruguay, Uzbekistan, and Vietnam.

Negotiations were concluded in 2010 to revise Hungary's current tax treaty with the United States; this is currently awaiting U.S. Senate ratification. In January 2014, Hungary signed a Foreign Account Tax Compliance Act (FATCA) Intergovernmental Agreement with the United States to improve international tax compliance through mutual assistance in tax matters and the automatic exchange of tax information. The United States and Hungary have also signed a totalization agreement that eliminates double social security taxation and fills gaps in benefits for workers that have divided their careers between the two countries.

Legal Regime

Transparency of the Regulatory System

Generally, legal, regulatory, and accounting systems are consistent with international and EU standards. However, some executives in Hungarian subsidiaries of U.S. companies complain about a lack of transparency in the GOH's policy-making process and an uneven playing field in public tendering. In recent years, there has been an uptick in the number of companies, including major U.S. multinational franchises, reporting pressure to sell their businesses to government-affiliated investors. Those that refuse to sell report an increase in tax audits, fines, and spurious regulatory challenges and court cases. SMEs increasingly report a desire to either remain small (and therefore "under the radar" of these government-friendly investors) or relocate their businesses outside of Hungary.

For foreign investors, the most relevant regulations stem from EU directives and the laws passed by Parliament to implement these. Laws in Parliament can be found on Parliament's website (http://www.parlament.hu/parl_en.htm). Legislation, once passed, is published in a legal gazette and available online at www.magyarkozlony.hu. The GOH can issue decrees, which also have national scope, but they cannot be contrary to laws enacted by Parliament. Local municipalities can create local decrees, limited to the local jurisdiction.

As a result of the COVID-19 crisis, in March 2020, the Parliament passed a bill that established an indefinite state of emergency in Hungary, allowing the GOH to govern by decree without parliamentary approval. The GOH used this decree to levy new sector-specific taxes, take government control over a company in an ownership dispute with the GOH, and to reallocate competencies and tax collection duties from an opposition-led municipality to a county-level body led by the ruling Fidesz party. The GOH did not include a sunset clause for the state of emergency, which at the time of drafting this report remained in effect. Interested investors are encouraged to contact the Embassy points of contact in this report for the most up-to-date information.

Hungarian financial reporting standards are in line with the International Accounting Standards and the EU Fourth and Seventh Directives. The Accounting law requires all businesses to prepare consolidated financial statements on an annual basis in accordance with international financial standards.

The GOH rarely invites interested parties to comment on draft legislation. Civil organizations have complained about a loophole in the current law that allows individual MPs to submit legislation and amendments without public consultation. The average deadline for submitting public comment is often very short, usually less than one week. The Act on Legislation and the Law Soliciting Public Opinion, both passed by Parliament in 2010, govern the public consultation process. The laws require the GOH to publish draft laws on its webpage and to give adequate time for all interested parties to give an opinion on the draft. However, implementation is not uniform and the GOH often fails to solicit public comments on proposed legislation.

The legislation process – including key regulatory actions – are published on Parliament's webpage. Explanations attached to draft bills include a short summary on the aim of the legislation, but public comments received by regulators are only occasionally made public.

Regulatory enforcement mechanisms include the county and district level government offices whose decisions can be challenged at county level labor and administrative courts. The court system generally provides efficient oversight over the GOH's administrative processes.

The GOH does not review regulations on the basis of scientific or data driven assessments, but some NGOs and academics do. A 2017 study by Corruption Research Center Budapest (CRCB) found that in the 2010-2013 period the annual average number of new laws passed by Parliament increased, while the average time spent debating new laws in Parliament decreased significantly. The analysis points out that the accelerating lawmaking process in Hungary in the 2010-2013 period had negative effects on the stability of the legal environment and the overall quality of legislation.

Hungary's budget was widely accessible to the general public, including online through the Parliament and Finance Ministry websites and the Legal Gazette. The government made budget documents, including the executive budget proposal, the enacted budget, and the end-of-year report publicly available within a reasonable period of time. Information on debt obligations was publicly available, including online through the Hungarian Central Bank and Hungarian State Debt Manager's websites.

International Regulatory Considerations

As an EU Member State, all EU regulations are directly applicable in Hungary, even without further domestic measures. If a Hungarian law is contrary to EU legislation, the EU rule takes precedence. As a whole, labor, environment, health, and safety laws are consistent with EU regulations. Hungary follows EU foreign trade and investment policy and all trade regulations follow EU legislation. Hungary participates in the WTO as an EU Member State.

Legal System and Judicial Independence

The Hungarian legal system is based on continental European (German-French and Roman law) traditions. Contracts are enforced by ordinary courts or – if stipulated by contract – arbitration centers. Investors in Hungary can agree with their partners to turn to Hungarian or foreign arbitration courts.

Apart from these arbitration centers, there are no specialized courts for commercial cases; ordinary courts are entitled to judge any kind of civil case. The Civil Code of 2013 applies to civil contracts.

The Hungarian judicial system includes four tiers: district courts (formerly referred to as local courts); courts of justice (formerly referred to as county courts); courts of appeal; and the Curia (the Hungarian Supreme Court). Hungary also has a Constitutional Court that reviews cases involving the constitutionality of laws and court rulings. Following Parliament's passage of a bill on changes in the court system in December 2019, in April 2020 public administration and labor courts were dissolved and first-level public administration and labor cases were transferred to courts of justices. Although the COVID-19 state of emergency law does not include regulations with regards to the court system, the GOH issued a decree in March 2020 on the operation of the courts to protect the health of court employees and customers. As a general rule, during the state of emergency individual access to court buildings is limited and all court procedures must take place in writing and in electronic form.

Although the GOH has criticized court decisions on several occasions, ordinary courts are considered to generally operate independently under largely fair and reliable judicial procedures. Recently, an increasing number of current and former judges have raised concerns about growing GOH influence over the court system and intimidation of judges by court administration. Most business complaints about the court system pertain to the lengthy proceedings rather than the fairness of the verdicts. The GOH has said it hopes to improve the speed and efficiency of court proceedings with the new Civil Procedure Code, which entered into force in January 2018.

Regulations and law enforcement actions pertaining to investors are appealable at ordinary courts or at the Constitutional Court.

Laws and Regulations on Foreign Direct Investment

Hungarian law provides strong protections for property and investment. The Hungarian state may only expropriate property in exceptional cases where there is a public interest; any such expropriations must be carried out in a lawful way, and the GOH is obliged to make immediate and full restitution for any expropriated property, without additional stipulations or conditions

The GOH passed a law on investment screening in 2018 that requires foreign investors seeking to acquire more than a 25% stake in a Hungarian company in certain "sensitive sectors" (defense, intelligence services, certain financial services, electric energy, gas, water utility, and electronic information systems for governments) to seek approval from the Interior Ministry. The Ministry has up to 90 days to issue an opinion and can only deny the investment if it determines that the investment is designed to conceal an activity other than normal economic activity. As of publication, we are not aware of any instances in which the Ministry has reviewed an investment.

There is no primary website or "one-stop shop" which compiles all relevant laws, rules, procedures, and reporting requirements for investors. HIPA, the Hungarian Investment Promotion Agency, however, facilitates establishment of businesses and provides guidance on relevant legislation.

Competition and Anti-Trust Laws

The Hungarian Competition Authority, tasked with safeguarding the public interest, enforces the provisions of the Hungarian Competition Act. Since EU accession in 2004, EU competition law also binds Hungary. The Competition Authority is empowered to investigate suspected violations of competition law, order changes to practices, and levy fines and penalties. According to the Authority, since 2010 the number of competition cases has decreased, but they have become more complex. Out of more than 100 cases over the past year, only a few minor cases pertained to U.S.-owned companies. Hungarian law does not consider conflict of interest to be a criminal offense. Citing evidence of conflict of interest and irregularities the European Anti-Fraud Office OLAF recommended opening a criminal investigation in a high profile $50M EU-funded public procurement project, but Hungarian authorities declined to prosecute the case.

Expropriation and Compensation

Hungary's Constitution provides protection against expropriation, nationalization, and any arbitrary action by the GOH except in cases of extreme national security concern. In such cases, immediate and full compensation is to be provided to the owner. There are no known expropriation cases where the GOH has discriminated against U.S. investments, companies, or representatives. There have been some complaints from other foreign companies within the past several years that expropriations have been improperly executed, without proper remuneration. Parties involved in these cases turned to the legal system for dispute settlement.

There is no recent history of official GOH expropriations, but many critics raised concerns that the 2014 tobacco and advertising taxes were a de facto expropriation attempt because they intentionally and disproportionately targeted foreign firms with the intent to force them to seek a buy-out from a domestic firm. The GOH backtracked on the taxes after a 2015 EU injunction. The increasing reports of the use of government regulatory and tax agencies to pressure businesses to sell to government-friendly investors may also be construed as a form of de-facto expropriation.

Dispute Settlement

ICSID Convention and New York Convention

Hungary is a signatory to the International Centre for the Settlement of Investment Disputes (ICSID Convention), proclaimed in Hungary by Law 27 of 1978. Hungary also is a signatory to the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention), proclaimed in Hungary by Law 25 of 1962.

There is not specific legislation providing for enforcement other than the two domestic laws proclaiming the 1958 New York Convention and the ICSID Convention. According to Law 71 of 1994, an arbitration court decision is equally binding to that of a court ruling.

Investor-State Dispute Settlement

Hungary is signatory to the 1965 Washington Convention establishing the International Centre for Settlement of Investment Disputes (ICSID) and to UN's 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Under the New York Convention, Hungary recognizes and enforces rulings of the International Chamber of Commerce's International Court of Arbitration.

Hungary has no Bilateral Investment Treaty or Free Trade Agreement with the United States. In recent years, the number of investor-State arbitration claims against Hungary has increased, although very few involve U.S. investors.

Over the past 10 years U.S. investors have been involved only in a few investment disputes, including a recent major dispute with Hungary's state-owned energy company MVM, where the U.S. claimant stepped back after it was unable to reclaim a $17M compensation. Since 2010, ten cases have been launched against Hungary at the ICSID, but none of them involved U.S. investors.

Local courts recognize and enforce foreign arbitral awards against the GOH.

In 2016 Hungarian Tax Office NAV froze the bank account and working capital of a U.S. owned company, before any wrongdoing had been confirmed. After several months, NAV released the account, but by that time the company has suffered significant losses.

International Commercial Arbitration and Foreign Courts

Hungary has accepted international arbitration in cases where the resolution of disputes between foreign investors and the state is unsuccessful. In the last few years, parties have increasingly turned to mediation as a means by which to settle disputes without engaging in lengthy court procedures. Law 71 of 1994 on domestic arbitration procedures is based on the UNCITRAL model law.

Investment dispute settlement clauses are usually regulated by stipulations of the investment contract. Hungarian law allows the parties to set the jurisdiction of any courts or arbitration centers. The parties can also agree to set up an ad hoc arbitration court. The law also allows investors to agree on settling investment disputes by turning to foreign arbitration centers, such as the International Centre for Settlement of Investment Disputes (ICSID), UNCITRAL's Permanent Court of Arbitration (PCA), or the Vienna International Arbitral Centre. In Hungary, foreign parties can turn to the Hungarian Chamber of Commerce and Industry arbitration court, which has its own rules of proceedings (https://mkik.hu/en/court-of-arbitration) and in financial issues to the Financial and Capital Market's arbitration court. Local courts recognize and enforce foreign or domestic arbitral awards. Arbitral ruling may only be annulled in limited cases, and under special conditions.

Domestic courts do not favor State-Owned Enterprises (SOEs) disproportionately. Investors can expect a fair trial even if SOEs are involved. Investors do not complain about non-transparent or discriminatory court procedures.

Bankruptcy Regulations

The Act on Bankruptcy Procedures, Liquidation Procedures, and Final Settlement of 1991, covers all commercial entities with the exception of banks (which have their own regulatory statutes), trusts, and state-owned enterprises, and brought Hungarian legislation in line with EU regulations. Debtors can only initiate bankruptcy proceedings provided that they have not sought bankruptcy protection within the previous three years. Within 90 days of seeking bankruptcy protection, the debtor must call a settlement conference to which all creditors are invited. Majority consent of the creditors present is required for all settlements. If agreement is not reached, the court can order liquidation. The Bankruptcy Act establishes the following priorities of claims to be paid: 1) liquidation costs; 2) secured debts; 3) claims of the individuals; 4) social security and tax obligations; 5) all other debts. Creditors may request the court to appoint a trustee to perform an independent financial examination. The trustee has the right to challenge, based on conflict of interest, any contract concluded within 12 months preceding the bankruptcy.

The debtor, the creditors, the administrator, or the Criminal Court may file liquidation procedures with the court. Once a petition is filed, regardless of who filed it, the Court notifies the debtor by sending a copy of the petition. The debtor has eight days to acknowledge insolvency. If the insolvency is acknowledged, the company declares if any respite for the settlement of debts is requested. Failure to respond results in the presumption of insolvency. Upon request, the Court may allow a maximum period of 30 days for the debtor to settle its debt.

If the Court finds the debtor insolvent, it appoints a liquidator. Transparency International (TI) has raised concerns about the transparency of the liquidation process because a company may not know that a creditor is filing a liquidation petition until after the fact. TI also criticized the lack of accountability of liquidator companies and the impractical deadlines in the process. The EU has also criticized the Hungarian system as being rescue-unfriendly, since bankruptcy proceedings typically only recover 44 cents to the dollar, compared to the OECD average of 71 cents on the dollar.

Bankruptcy in itself is not criminalized, unless it is made in a fraudulent way, deliberately, and in bad faith to prevent the payment of debts.

Law 122 of 2011 obliges banks and credit institutions to establish and maintain the Central Credit Information System to assess creditworthiness of businesses and individuals to facilitate prudent lending.

Industrial Policies

Investment Incentives

Hungary has a well-developed incentive system for investors, the cornerstone of which is a special incentive package for investments over a certain value (typically over EUR 10 million, or $11M). The incentives are designed to benefit investors who establish manufacturing facilities, logistics facilities, regional service centers, R&D facilities, bioenergy facilities, or those who make tourism industry investments. Incentive packages may consist of cash subsidies, development tax allowances, training subsidies, and job creation subsidies. The incentive system is compliant with EU regulations on competition and state aid and is administered by the Hungarian Investment Promotion Agency (HIPA) and managed by the Ministry of National Development (MND). The government provides non-refundable subsidies to foreign investments in less developed areas and certain sectors including research and development, innovation, and high-tech manufacturing, based on case-by-case government decisions. For more information please see HIPA (non-refundable incentives).

Foreign Trade Zones/Free Ports/Trade Facilitation

Foreign trade zones were eliminated as a result of EU accession.

Performance and Data Localization Requirements

Hungary does not mandate local employment.

The number of work permits issued for third-country nationals is limited by law, but in recent years, this limit was well above the actual number of registered third-country employees. Residency and work permits are issued by the Immigration Office and the local labor offices.

As of 2019, for investments in certain strategic sectors including the military, intelligence, public utilities, financial services and electronic information systems, the Ministry of Interior issues investments permits. There are no laws in place requiring the fulfilment of special labor force related conditions to get investment permits. However, in certain cases, the GOH has established retention of workforce as a condition to award state grants to investors.

Hungary has no forced data localization policy. Foreign IT providers do not need to turn over source code or provide access to encryption. Hungary follows EU rules as regards transfer of personal data outside the economy. Storage of personal data is regulated by a data protection law and it is under the authority of a Data Protection Ombudsman.

There are no general performance requirements for investors in Hungary. However, investors may receive government subsidies in the event they meet certain performance criteria, such as job creation or investment minimums, which are available to all enterprises registered in Hungary and are applied on a systematic basis. To comply with EU rules, the GOH no longer grants tax holidays based on investment volume. There is no requirement that investors must purchase from local sources, but the EU Rule of Origin applies. Investors are not required to disclose proprietary information to the GOH as part of the regulatory process.

Hungary, as an EU Member State, follows the General Data Protection Regulation (GDPR) rules on transmitting data outside of the EU and local data storage requirements. The National Authority for Data Protection and Freedom of Information is responsible for enforcing GDPR rules.

Protection of Property Rights

Real Property

Intellectual Property Rights

Hungary maintains a reliable land registry, which provides public information for anyone on the ownership, mortgage, and usufruct rights of the real estate or land parcel. Secured interests in property (mortgages), both moveable and real, are recognized and enforced but there is no title insurance in Hungary.

According to the Land Law of 2013 only private Hungarian citizens or EU citizens resident in Hungary with a minimum of three years of experience in agriculture, or holding a degree in an agricultural field, can purchase farmland. The law allows the lease of farmland up to 1200 hectares for a maximum of 20 years. There is no restriction for purchase or lease of non-farmland properties.

Hungarian law allows acquisitive prescription for unoccupied real property if the user of the property occupies it continuously for at least 15 years.

Intellectual Property Rights

Hungary has an adequate legal structure for protecting intellectual property rights (IPR), although it lacks deterrent-level sentences for civil and criminal IPR infringement cases. There has been no new major IPR legislation passed over the last year. According to some representatives of the pharmaceutical and software industries, enforcement could be improved if the Prosecution Office were to establish specialized units to combat IPR violations. The most common IPR violations in Hungary include selling counterfeit goods, the sale of imported counterfeit pharmaceuticals, and Internet-based piracy. Most counterfeit goods sold in Hungary are of Chinese origin.

Hungary acceded to the European Patent Convention in 2003 and has accordingly amended the Hungarian Patent Act. Hungary is a party to the World Trade Organization (WTO) Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and most other major international IPR agreements, including the most recent World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performance and Phonograms Treaty. It is also a party to the EU Information Society Directive and implemented the EU Enforcement Directive in 2005.

The United States and Hungary signed a Comprehensive Bilateral Intellectual Property Rights Agreement in 1993 that addresses copyright, trademarks, and patent protection.

In July 2010, the U.S. Patent and Trademark Office (USPTO) and the Hungarian Intellectual Property Office (HIPO) launched a pilot program to facilitate patent recognition between the United States and Hungary. Due to the pilot's success, in April 2012 the USPTO and HIPO signed a Memorandum of Understanding to further streamline and expedite patent recognition. More details about this Patent Processing Highway (PPH) program can be found on USPTO's website at www.hipo.gov.hu/English/szabadalom/pph/.

Hungary is not listed in the United States Trade Representative (USTR) Special 301 Report or the Notorious Markets List.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles.

Hungary prosecutes IPR violations and authorities have the relevant statistical data. In 2017 the total number of IPR related crime cases was 631, the total value of these crimes amounted to \$5.7M and authorities seized \$2.5M worth of counterfeit products.

Financial Sector

Capital Markets and Portfolio Investment

The Hungarian financial system offers a full range of financial services with an advanced information technology infrastructure. The Hungarian Forint (HUF) has been fully convertible since 2001, and both Hungarian financial market and capital market transactions are fully liberalized. The Capital Markets Act of 2001 sets out rules on securities issues, including the conversion and marketing of securities. As of 2007, separate regulations were passed on the activities of investment service providers and commodities brokers (2007), on Investment Fund Managing Companies (2011), as well as on Collective Investments (2014), providing more sophisticated legislation than those in the Capital Markets Act. These changes aimed to create a regulatory environment where free and available equity easily matches with the best investment opportunities. The 2016 modification of the Civil Code removed remaining obstacles to promote collection of public investments in the course of establishing a public limited company.

The Budapest Stock Exchange (BSE) re-opened in 1990 as the first post-communist stock exchange in the Central and East European region. Since 2010, the BSE has been a member of the Central and Eastern Europe (CEE) Stock Exchange Group. In 2013, the internationally recognized trading platform Xetra replaced the previous trading system. Currently, the BSE has 40 members and 62 issuers. The issued securities are typically shares, investment notes, certificates, corporate bonds, mortgage bonds, government bonds, treasury bills, and derivatives. In 2018, the Budapest Stock Exchange had a market capitalization of $32B, and the average monthly equity turnover volume amounted to $1.1B. The most traded shares are OTP Bank, Richter Gedeon, MOL, Magyar Telekom, and FHB Mortgage Bank

Financial resources flow freely into the product and factor markets. In line with IMF rules, international currency transactions are not limited and are accessible both in domestic or foreign currencies. Individuals can hold bank accounts in domestic and foreign currencies as well as conduct transactions in foreign currency. Since March 2020, commercial banks introduced real time bank transfers for domestic currency transactions.

Commercial banks provide credit to both Hungarian and foreign investors at market terms. Credit instruments include long-term and short-term liquidity loans. All banks publish total credit costs, which includes interest rates as well as other costs or fees.

Money and Banking System

The Hungarian banking system has strengthened over the past two years, and the capital position of banks is adequate. Following several years of deleveraging after the 2008 crisis, the banking system is mainly deposit funded. Customer deposits account for roughly 60% of banks' total liabilities

The Hungarian banking system is healthy and banks have a stable capital position. The loan-to-deposit ratio has been gradually decreasing from its 160% peak in 2009 after the financial crisis to 76.4% in 2019, similar to regional peers. The ratio of non-performing loans (NPLs) has declined from a high of 18% in 2013 to 4.8% in 2019 as a result of portfolio cleaning, the improving economic environment, and increased lending. The banking sector became profitable in 2016 after several years of losses, and the return on equity increased to 13.2%, up from a record low of negative 17% in 2015. The largest bank in Hungary is OTP Bank, which is Hungarian-owned and controls 25% of the market, with approximately $29B in assets.

Hungary has a modern two-tier financial system and a developed financial sector, although some reports that regulatory issues have arisen as a result of the Central Bank's (MNB) 2013 absorption of the Hungarian Financial Supervisory Authority (PSZAF), which was the financial sector regulatory body. Between 2000 and 2013, the PSZAF served as a consolidated financial supervisor, regulating all financial and securities markets. PSZAF, in conjunction with the MNB, managed a strong two-pillar system of control over the financial sector, producing stability in the market, effective regulation, and a system of checks and balances. When the MNB absorbed PSZAF and took over all of its functions, including customer protection, this regulation system was weakened. A Hungarian State Audit Office (SAO) report published in April 2015 determined that the MNB's consolidation of financial regulation undermined the system's ability to provide effective enforcement. In March 2015, insolvency, lax regulations, and alleged embezzlement resulted in the failure of three brokerage firms (Buda-Cash, Quaestor, and Hungaria Ertekpapir), resulting in a total loss of over $1.2B, close to 1% of Hungary's GDP. At the end of 2015, Parliament passed legislation to tighten control over brokerage firms' operations as well as increase banks' contribution to the fund established to compensate investors.

The proportion of foreign banks in total assets of the financial sector decreased to about 50% in 2017, down from its peak of 70% before the financial crisis and has stayed around this level since then. Foreign banks are subject to central bank uniform regulations and prudential measures, which are applied to Hungary's entire financial market without discrimination. Commercial banks have extensive direct correspondent banking relationships and are capable of transferring domestic or foreign currencies to most banks outside of Hungary. Cashing of U.S. checks, however, is not possible since 2018. No loss or jeopardy of correspondent banking relations has been reported.

Recent regulations restrict foreign currency loans to only those that earn income in foreign currency, in an effort to eliminate the risk of exchange rate fluctuations. Additionally, the MNB lowered the loan-to-deposit ratio, forcing banks to restrict lending to firms in riskier sectors. Foreign investors continue to have equal – if not better – access to credit on the global market, with the exception of special GOH credit concessions such as small business loans.

There are no rules preventing a foreigner or foreign firm from opening a bank account in Hungary. Valid personal documents (i.e. passport) is needed and as of 2015, when the Foreign Account Tax Compliance Act (FATCA) came into force, a declaration whether the individual is a U.S. citizen. Banks have not discriminated against U.S. citizens in opening bank accounts based on FATCA.

Foreign Exchange and Remittances

Foreign Exchange

The Hungarian forint (HUF) has been convertible for essentially all business transactions since January 1, 1996, and foreign currencies are freely available in all banks and exchange booths. Hungary complies with all OECD convertibility requirements and IMF Article VIII. Act XCIII of 2001 on Foreign Exchange Liberalization lifted all remaining foreign exchange restrictions and allowed free movement of capital in line with EU regulations.

According to Hungary's EU accession agreement, it must eventually adopt the Euro once it meets the relevant criteria, but the GOH has not set a specific target date even though Hungary meets most of the necessary fiscal and financial criteria. According to the Economic Ministry, the country‘s economic performance should mirror the Eurozone average more closely before adapting the Euro.

Short-term portfolio transactions, hedging, short, and long-term credit transactions, financial securities, assignments and acknowledgment of debt may be carried out without any limitation or declaration. While the Forint remains the legal tender in Hungary, parties may settle financial obligations in a foreign currency. Many Hungarians took out mortgages denominated in foreign currency prior to the global financial crisis and suffered when the Forint depreciated against the Swiss Franc and the Euro. Despite strong pressure, the Hungarian Supreme Court ruled that there is nothing inherently illegal or unconstitutional in loan agreements that are foreign currency denominated, upholding existing contract law. New consumer loans, however, are denominated in Forints only, unless the debtor receives regular income in a foreign currency.

Market forces determine the exchange rate of the HUF to the Euro and thereby to other currencies.

Remittance Policies

There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs.

The timeframes for remittances are in line with the financial sector's normal timeframes (generally less than 30 days), depending on the destination of the transfer and on whether corresponding banks are easily found.

Sovereign Wealth Funds

Hungary does not maintain a sovereign wealth fund.

State-Owned Enterprises

In the 1990s, there was considerable privatization of former State-Owned Enterprises (SOEs), primarily in strategic sectors such as energy and transportation. Since 2010, the GOH has reversed this trend by making new investments in machinery production and the energy and telecommunications sectors, with the number of SOEs increasing.

As of 2020, there are more than 200 SOEs. The state holds majority ownership in more than half of them. In addition, there are a large number of municipality-owned companies. SOEs are particularly active in the energy and utility sectors, in banking, transportation, forestry, and postal services. SOEs have independent boards, but in practice, all strategic decisions require government approval.

Major SOEs include the National Asset Management Company (MNV), Magyar Posta, state energy company MVM, Hungarian State Railways (MAV), state gambling monopoly Szerencsejatek, National Infrastructure Development Company (NIF), car manufacturer RABA, and state-owned banks Exim bank, Hungarian Development Bank (MFB), Takarekbank, and Budapest Bank. The GOH has a 25% stake in hydrocarbon company MOL.

A 2011 law on national assets lists the SOEs of strategic importance, which are to be kept in state ownership (https://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=a1100196.tv); as of April 2020 there were 63 such companies. There is no officially published, complete list of SOEs, but the State Asset Manager MNV has a list of companies under its control on its webpage. The list does not cover all publicly owned companies: http://mnv.hu/felso_menu/tarsasagi_portfolio/mnvportfolio.

In principle, the same rules apply to SOEs as to privately owned companies in most cases, but in practice, some companies report that SOEs often enjoy preferential treatment from certain authorities. According to many businesses, since mid-2012, the GOH has made it more difficult for foreign-owned energy companies to operate in the Hungarian market. The GOH has publicly stated its interest in nationalizing some private energy firms. In 2013, the GOH purchased E.ON's wholesale and gas storage divisions and RWE's retail gas company, Fogaz. In 2014 and 2015, the GOH acquired other energy companies. By the end of 2016, state-owned Fogaz became the only remaining retail gas utility provider in Hungary. Press has reported that the GOH intends to take over the electricity and the heating retail markets as well.

Hungary adheres to OECD Guidelines on Corporate Governance as well as to EU rules on SOEs. The Hungarian National Asset Management Company is the state asset manager.

According to a 2015 study conducted by Transparency International (TI) Hungary, SOEs scored 61 points on a scale of 100 with regard to meeting transparency obligations in terms of data published on their websites, integrity, codes of ethics, and internal control systems. TI noted that although there was a considerable improvement compared to the previous survey in 2013, none of the SOEs reviewed during their study was in full compliance with transparency and disclosure requirements as mandated by Hungarian law.

In a July 2018 State Audit Office (SAO) report on the monitoring of 62 SOEs, the SAO said that the investigated enterprises' integrity and compliance regulations have improved over the past years and their current transparency and integrity level is satisfactory. The report added that the auditing and asset management of SOEs could still be improved, and owners should investigate SOEs more often than the current practice, the report added.

Privatization Program

In the 1990s, the privatization of state-owned enterprises (SOEs), including the energy sector, manufacturing, food processing, and chemistry, ushered in a significant period of change. This policy has stopped in recent years as most SOEs have already been privatized, and in fact, the trend has reversed since 2010 as the state has taken more ownership or de facto control in certain sectors, including energy and public utilities.

Responsible Business Conduct

Hungary encourages multinational firms to follow the OECD Guidelines for Multinational Enterprises, which promotes a due diligence, approach to responsible business conduct (RBC). The government has established a National Contact Point (NCP) in the Ministry of Finance for stakeholders to obtain information or raise concerns in the context of RBC. The Hungarian NCP has organized events to promote OECD Guidelines among the business community, trade unions, government agencies, and NGOs. For more information, see the OECD National Council.

In recent years, the GOH has organized several conferences on RBC and announced in 2017 to formulate a National Action Plan on Businesses and Human Rights, but the document has not been prepared yet. According to the First National CSR Action Plan formulated in 2015, key RBC priorities of the GOH included the employment of discriminated, disadvantaged, and disabled groups, environment protection, and the expansion of sustainable economy. RBC does not typically play a role in GOH procurement decisions.

According to a survey conducted by CSR Hungary – the country's largest CSR forum – 55% of businesses have a CSR policy and 44% of businesses think that CSR increased their competitiveness. According to Nielsen Global Omnibus research, over 60% of Hungary's adult population prefers companies committed to CSR, exceeding the 54% average in the EU.

In 2017, Hungary's independent labor rights protection, consumer protection, cultural heritage protection, and environment protection agencies were merged into their relevant ministries and county level government offices. Environmental NGOs criticized the transformation of the institutional system and warned about the lack of independent agencies.

There are several NGOs and business associations promoting RBC and CSR. The one with the most members, CSR Hungary Forum – created in 2006 – established an annual award and trademark in 2008 to recognize business CSR efforts.

The GOH does not have policies in place to encourage adherence to OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Afflicted and High-Risk Areas.

Corruption

Hungary has legislation in place to combat corruption. Giving or accepting a bribe is a criminal offense, as is an official's failure to report such an incident. Penalties can include confiscation of assets, imprisonment, or both. Since Hungary's entry into the EU, legal entities can also be prosecuted. Legislation prohibits members of parliament from serving as executives of state-owned enterprises. An extensive list of public officials and many of their family members are required to make annual declarations of assets, but there is no specified penalty for making an incomplete or inaccurate declaration. It is common for prominent politicians to be forced to amend declarations of assets following revelations in the press of omission of ownership or part-ownership of real estate and other assets in asset declarations. Politicians are not penalized for these omissions. Transparency advocates claim that Hungarian law enforcement authorities are often reluctant to prosecute cases with links to high-level politics. For example, they reported that, in November 2018, Hungarian authorities dropped the investigation into $50M in EU-funded public lighting tenders won by a firm co-owned by a relative of the prime minister, despite the fact that OLAF, the European Anti-Fraud Office, raised concerns about evidence of conflict of interest and irregularities involving the deal. According to media reports, OLAF concluded that at least some of the tenders were won due to what it considered organized criminal activity.

Annual asset declarations for the family members of public officials are not public and only parliamentary committees can look into them if there is a specified suspicion of fraud. Transparency watchdogs warn that this makes the system of asset declarations inefficient and easy to circumvent as politicians can hide assets and revenues in their family members' name.

The Public Procurement Act of 2015 initially included broad conflict of interest rules on excluding family members of GOH officials from participating in public tenders, but Parliament later amended the law to exclude only family members living in the same household. While considered in line with the overarching EU directive, the law still leaves room for subjective evaluations of bid proposals and tender specifications that could potentially be tailored to favored companies.

While public procurement legislation is in place and complies with EU requirements, private companies and watchdog NGOs expressed concerns about pervasive corruption and favoritism in public procurements in Hungary. According to their criticism, public procurements in practice lack transparency and accountability and are characterized by uneven implementation of anti-corruption laws. Additionally, transparency NGOs calculate that government allied firms have won a disproportionate percentage of public procurement awards. The business community and foreign governments share many of these concerns. Multinational firms have complained that competing in public procurements presents unacceptable levels of corruption and compliance risk. A recent EU study found that Hungary had the second highest rate of one-bidder EU funded procurement contracts in the European Union. In addition, observers have raised concerns about the appointments of Fidesz party loyalists to the heads of quasi-independent institutions like the Competition Authority, the Media Council, and the State Audit Office. Because it is generally understood that companies without political connections are unlikely to win public procurement contracts, many firms lacking such connections do not bid or compete against politically-connected companies.

The GOH does not require private companies to establish internal codes of conduct.

Generally, larger private companies and multinationals operating in Hungary have internal codes of ethics, compliance programs, or other controls, but their efficacy is not uniform.

The Hungarian Ministry of Justice and the Ministry of Interior are responsible for combating corruption. There is a growing legal framework in place to support their efforts. Hungary is a party to the UN Anticorruption Convention and the OECD Anti-Bribery Convention and has incorporated its provisions into the penal code, as well as subsequent OECD and EU requirements on the prevention of bribery. Parliament passed the Strasbourg Criminal Law Convention on Corruption of 2002 and the Strasbourg Civil Code Convention on Corruption of 2004. Hungary is a member of GRECO (Group of States against Corruption), an organization established by members of the Council of Europe to monitor the observance of their standards for fighting corruption. GRECO's reports on evaluation and compliance are confidential unless the Member State authorizes the publication of its report. For several years, the GOH has kept confidential GRECO's most recent compliance report on prevention of corruption with respect to members of parliament, judges, and prosecutors, and a report on transparency of party financing. Following calls from opposition, NGOs, and other GRECO Member States and a March 2019 visit by senior GRECO officials to Budapest, the GOH agreed to publish the reports in August 2019. The reports revealed that Hungary failed to meet 13 out of 18 recommendations issued by GRECO in 2015; assessed that Hungary's level of compliance with the recommendations was "globally unsatisfactory"; and concluded that the country would therefore remain subject to GRECO's non-compliance procedure. The compliance report on transparency of party financing noted some progress but added that "the overall picture is disappointing."

In December 2016, the GOH withdrew its membership in the international anti-corruption organization the Open Government Partnership (OGP). Following a letter of concern by transparency watchdogs to OGP's Steering Committee in summer 2015, OGP launched an investigation into Hungary and issued a critical report. The OGP admonished the GOH for its harassment of NGOs and urged it to take steps to restore transparency and to ensure a positive operating environment for civil society. The GOH — only the second Member State after Azerbaijan to be reprimanded by the organization — rejected the OGP report conclusions and withdrew from the organization.

In recent years, the GOH has amplified its attacks on NGOs – including transparency watchdogs – accusing them of acting as foreign agents and criticizing them for allegedly working against Hungarian interests. This anti-NGO rhetoric endangered the continued operation of anti-corruption NGOs crucial to promoting transparency and good governance in Hungary. In 2017, Parliament passed legislation that many civil society activists criticized for placing undue restrictions on NGOs, including compelling organizations to register as "foreign funded" if they receive funding from international sources. In July 2018, the GOH passed legislation that criminalizes many legal activities, primarily conducted by international NGOs that assist migrants and asylum seekers. Although the legislation does not directly target transparency NGOs, transparency experts claim the GOH could use the overly broad definitions in the legislation to target virtually any NGO in Hungary.

Transparency International (TI) is active in Hungary. TI's 20198 Corruption Perceptions Index rated Hungary 70 out of 180 countries. Among the 27 EU members, Hungary was tied for 26th place, with only one other member state scoring lower. TI has noted that state institutions responsible for supervising public organizations were headed by people loyal to the ruling party, limiting their ability to serve as a check on the actions of the GOH. After the GOH amended the Act on Freedom of Information in 2013 and 2015, TI and other watchdogs note that data on public spending remains problematically difficult to access. Moreover, according to watchdogs and investigative journalists, the GOH, state agencies, and SOEs are increasingly reluctant to answer questions related to public spending, resulting in lengthy court procedures simply to receive answers to questions. Even if the court orders the release of data, by the time it happens, the data loses significance and has a weaker impact, watchdogs warn. In some cases, even when ordered to provide information, state agencies and SOEs release data in nearly unusable or undecipherable formats.

U.S. firms – along with other investors – identify corruption as a significant problem in Hungary. According to the World Economic Forum's 2017 Global Competitiveness Report, businesses considered corruption as the second most important obstacle to making a successful business in Hungary. The U.S. Department of Justice announced in 2019 that Microsoft Hungary, a wholly-owned subsidiary of Microsoft Corporation, agreed to pay an $8.7M Department of Justice fine and an additional $16.6M fine to the U.S. Securities and Exchange Commission for violations of the Foreign Corrupt Practices Act in Hungary. According to the investigation, Microsoft admitted that senior executives at Microsoft Hungary convinced Microsoft executives to issue deep discounts on Microsoft products to local resellers who then sold the products to the GOH at full price. DOJ stated that resellers used the difference for "corrupt purposes," and were falsely recorded as discounts. Media reporting on the case note that of the four top Microsoft executives dismissed over the corruption allegations, two subsequently found employment with the GOH. Despite the U.S. findings, the Hungarian prosecutor's office has not pursued charges against any of the Hungarians involved in the scheme.

State corruption is also high on the list of EC concerns with Hungary. The EC Anti-Fraud Office (OLAF) has found high indices of fraud in EU-funded projects in Hungary and has levied fines and withheld development funds on several occasions. Over the past few years, the European Commission (EC) has suspended payments of EU funds several times due to numerous irregularities in Hungary's procurement system. In December 2016, after completing an investigation into the construction of the EU-funded Budapest M4 metro line, OLAF discovered that contracts valued at more than $1B had been affected by corruption and determined that Hungary should return $240M to the EU. In a January 2018 report, OLAF recommended Hungarian authorities investigate a high-profile corruption case linked to PM Orban's son-in-law, whose firm the report alleges was fraudulently awarded EU-funded public contracts by local municipalities in Hungary. OLAF requested the GOH return $54M to compensate for the amount of misused EU funds. In November 2018, Hungarian authorities announced they were closing the investigation, claiming to have found no evidence of a crime. In February 2019, the GOH withdrew its request that the EU fund the controversial projects.

TI and other anti-corruption watchdogs have highlighted EU-funded development projects as the largest source of corruption in Hungary. A TI study found indices of corruption and overpricing in up to 90% of EU-funded projects. A 2016 study by Corruption Research Center Budapest (CRCB) based on public procurement data from 2009-2015 revealed that the massive influx of EU funds reduced competition and increased levels of corruption risk and overpricing in public procurements. According to the study, EU-funded tenders perform poorly with regard to corruption risks, competitive intensity, and transparency, compared with Hungarian-funded tenders. Besides their positive impact on GDP growth and development, EU funds in Hungary contribute to the system of political favoritism and fuel crony capitalism, the study concluded. A September 2018 CRCB report found – after analyzing more than 120,000 public procurement contracts of the 2010-2016 period – that companies owned by individuals with links to senior government officials enjoy a preferential treatment at public tenders and face less competition than other companies.

Resources to Report Corruption

GOH Office Responsible for Combatting Corruption:

National Protective Service

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Political and Security Environment

The security environment is relatively stable. Politically motivated violence or civil disturbance is rare. Violent crimes are reasonably low while street crimes are the most frequently reported crimes in the country. Political violence is not common in Hungary and most political protests are pre-reported at the Police. The transition from communist authoritarianism to capitalist democracy was negotiated and peaceful, and free elections have been held consistently since 1990.

Labor Policies and Practices

Hungary's civilian labor force of 4.5 million is highly educated and skilled. Literacy exceeds 98% and about two-thirds of the work force has completed secondary, technical, or vocational education. Hungary's unemployment rate decreased from a peak of 11.8% in March 2010 to 3.3% by the end of 2019, lower than the EU average of 7%. Hungary's employment rate for the population aged 15-64 years was 69.2% in 2019, higher than the EU average of 68.67%. Hungary is particularly strong in engineering, medicine, economics, and science training, although emigration of Hungarians from these sectors to other EU member states has increased in recent years.

Multinationals increasingly cite a skilled labor shortage as their biggest challenge in Hungary and note that Hungarian vocational institutions and universities need to adapt to changes in the marketplace at a faster pace. An increasing number of young people are attending U.S.- and European-affiliated business schools in Hungary. Foreign language skills, especially in English and German, are becoming more widespread, yet Hungary still has the lowest level of foreign language proficiency in the EU. According to 2018 data, only 37% of the working-age Hungarians speak at least one foreign language, while the EU average is 66%.

As the rate of unemployment has declined, certain sectors have begun to face shortages of skilled and highly educated employees. Multinational executives consistently identify labor shortages as the single largest obstacle to investment in Hungary. As Hungarians increasingly seek work abroad, shortages of highly educated and skilled labor are negatively affecting growth in certain regions and industries. In addition, declining OECD Program of International Student Assessment (PISA) scores may signal that the workforce is losing its ability to learn new skills and adapt to changing market conditions. The government is attempting to address labor shortage by increasing the minimum wage, offering training programs to facilitate public workers employment on the labor market, and by promoting employment of young mothers and pensioners by lowering employer-paid welfare contributions, and by reforming the education and vocational training system. Shortages of skilled workers, particularly in the IT, financial, and manufacturing sectors, are more acute in the northwest and central regions of the country. East of the Danube, unemployment levels are above average, even though the cost of labor is lower. Wages in Hungary are still significantly lower than those in Western Europe, despite the recent increase in minimum wage. Average Hungarian labor productivity is lower than the EU average but exceeds that of other Central and Eastern European economies.

In 2016, the government, trade unions, and employer representatives signed a three-year agreement to increase the minimum wage for unskilled and skilled workers by 15 and 25% respectively in 2017, and 8 and 12% in 2018. The GOH again increased the minimum wage for skilled and unskilled workers by 8% in 2019. The deal also included an almost 50% cut in the business tax for large companies from 19% to 9% as of 2017 as well as gradually lowering the payroll tax from 21.5% in 2016 by 2% each year, down to 15.5% as of July 2020 to offset companies' increased labor costs. The GOH also is considering facilitating the employment of workers from neighboring countries, primarily ethnic Hungarian minority communities in those countries.

The GOH requires hiring of nationals in certain strategic sectors and some areas of public administration.

Labor law stipulates severance payment in case of lay-off, as well as under certain conditions for an employee terminating a work contract. The government pays unemployment benefits for three months and offers the services of local employment offices.

Labor laws are uniform and there are no waivers to attract or retain investment available. Collective bargaining is increasingly common in large companies, education, public transport, retail, and medical services.

The 2012 changes to the Labor Law transferred some of the collective bargaining rights from trade unions to work councils. (Although work councils have a similar mission to those of labor unions, each firm has its own work council, and thus lacks the collective reach of an industry-wide trade union.) Hungary's trade union membership rate is currently about 15%, while the EU average is 25%. Following successful wage negotiations in 2019, the popularity of trade unions is started to increase. Hungary has ratified all eight ILO core conventions.

Labor dispute resolution includes mediation as well as court procedures. Employees, however, typically agree with employers outside court or mediation procedures. In 2019, a six-day strike at Audi Hungary was resolved with an agreement between employers and employees for a15 to 20% wage increase. The success of this high-profile strike has led to a series of short-term strikes, or threats of strikes, at other companies. The majority of these strikes have been resolved quickly with wage increase concessions from management. All recent strikes have been peaceful and complied with Hungarian labor laws.

Hungary has been a member of the International Labor Organization since 1955. Hungary's labor law and practice are in line with international labor standards. Discussions between the ILO and the GOH are ongoing on certain provisions of the 2012 modification of Hungary's labor law, including the freedom expression, registration of trade unions, and minimum level of public service in case of strike.

Hungary passed amendments to its Labor Code in December 2018 that increase the amount of overtime an employer can request and gives employers up to three years to reconcile and pay for overtime. These highly unpopular changes led to a series of large protests throughout Hungary and currently are being reviewed by the European Commission. In 2020, as a part of its COVID-19 economic response plan, the government decreed that employers can implement flexible working hours and a 24-month working time frame to calculate overtime without prior agreement from the employee or union. Local labor organizations complained that the move rolled back hard-won concessions from the 2018 labor reform.

U.S. International Development Finance Corporation (DFC) and Other Investment Insurance Programs

Corporation (OPIC) has operated in Hungary since October 1989, offering U.S. investors financing through direct loans or guarantees, political risk insurance, and capital for private equity funds. OPIC's financial support ranges from small micro financings to large infrastructure project loans.

Foreign Direct Investment and Foreign Portfolio Investment Statistics

Please note that the following tables include FDI statistics from three different sources, and therefore will not be identical. Table 2 uses BEA data when available, which measures the stock of FDI by the market value of the investment in the year the investment was made (often referred to as historical value). This approach tends to undervalue the present value of FDI stock because it does not account for inflation. BEA data is not available for all countries, particularly if only a few US firms have direct investments in a country. In such cases, Table 2 uses other sources that typically measure FDI stock in current value (or, historical values adjusted for inflation). Even when Table 2 uses BEA data, Table 3 uses the IMF's Coordinated Direct Investment Survey (CDIS) to determine the top five sources of FDI in the country. The CDIS measures FDI stock in current value, which means that if the U.S. is one of the top five sources of inward investment, U.S. FDI into the country will be listed in this table. That value will come from the CDIS and therefore will not match the BEA data.

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		**USG or international statistical source**		**USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other**
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	2018	$158,739	2018	$157,883	www.worldbank.org/en/country
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M	2018	$2,610	2018	$7,811	BEA data available at https://www.bea.gov/international/direct-investment-and-multinational-enterprises-comprehensive-data

USD, stock positions)					
Host country's FDI in the United States ($M USD, stock positions)	2018	$102	2018	$31,137	BEA data available at https://www.bea.gov/international/direct-investment-and-multinational-enterprises-comprehensive-data
Total inbound stock of FDI as % host GDP	2018	57%	2018	57%	UNCTAD data available at https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx

* Source for Host Country Data: Hungarian Central Bank www.mnb.hu

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	177,299	100%	Total Outward	118,427	100%
Cayman Islands	20,578	11.6%	Switzerland	51,164	43.2%
The Netherlands	19,343	10.9%	United States	18,323	15.5%
Ireland	19,222	10.8%	Ireland	8,727	7.4%
Germany	18,953	10.7%	The Netherlands	5,349	4.6%
United States	18,331	10.3%	Croatia	4,270	3.6%
"0" reflects amounts rounded to +/- USD 500,000.					

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, current US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	15052	100%	All Countries	8599	100%	All Countries	5454	100%
Luxembourg	4166	29.6%	Luxembourg	3264	38.0%	Luxembourg	902	16.5%
United States	1796	12.8%	United States	1610	18.7%	Austria	365	6.7%
Austria	938	6.7%	Belgium	517	6.8%	Czech Rep.	364	6.7%
Germany	660	4.7%	Austria	573	6.7%	Slovak Rep.	287	5.3%
Poland	523	3.7%	Germany	555	6.5%	Croatia	257	4.7%

Political and Economic Environment

For background information on the political and economic environment of the country, please visit CIA Factbook and Department of State website, at **httpps://www.st.gttpateov/countries-areas/hungary/.**