

Embassy of India Budapest

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Economic and Commercial Report for the month of January 2016

Executive Summary

1. Transparency international gauges rise of corruption in Hungary
2. Hungary meets Euro adoption criteria
3. Changes in the National tax and customs agency
4. Central Bank proposes sale of MKB Bank to China
5. ÁÁK plans bond issue with Euro, Dollar or Yuan
6. GVH fines Banking Association Ft 4bn over data sharing

Economy

Paks expansion tenders called off: The state company assigned to oversee the expansion of the Paks nuclear power plant has cancelled three public procurement procedures, stating that it will not be able to sign the contracts, due to unforeseen reasons. EU launched infringement proceedings against Hungary in November 2015 over expansion of the project for not following open bidding procedures in tenders.

Transparency International gauges rise of “systematic” corruption in Hungary: Hungary slipped from 47th to 50th in the annual Corruption Perceptions Index prepared by Transparency International. Hungary was ranked ahead of only four other EU member states, namely Bulgaria, Greece, Italy and Romania.

Hungary meets Euro adoption criteria: Hungary has effectively met the Maastricht criteria for EU member states to adopt the euro, but there is no political will to switch to that currency. Hungary has kept its budget deficit below 3% of GDP for years and has met debt reduction rules. With inflation near zero, Hungary has also met the stipulation that the inflation rate can not exceed that of the lowest in three member states plus 1.5 percentage points. Long-term interest rates have also been down to required levels.

Changes in National tax and customs agency (NAV): The government has decided that the NAV will no longer be an independent entity, but a state secretariat within the Economy Ministry. It has been said that the reorganization will enable NAV to better respond to economic changes and to be more user-friendly for both individual and corporate taxpayers. Several regional offices will be closed and the number of employees will be reduced from 20,000 to 17,200.

MNB praises funding for lending programme: Some 31,000 companies received Ft 2.1 trillion in subsidised loans under the MNB's funding for lending programmes, the scheme which has come to an end. The loans are considered to have added 1-1.5 percentage points to GDP in the 2014-2015 period.

MNB keeps base rate at 1.35%: The MNB's monetary council kept the base rate at 1.35% in line with its long-term strategy and market forecasts.

MNB reserves fell in 2015: The central bank's international reserves stood at €30.3 billion at the end of 2015, down from €34.6 billion one year earlier, according to final data from the MNB.

Matolcsy negotiating with Bank of China: An MNB delegation led by the central bank's governor György Matolcsy had visited China, participating in the first Hungarian-Chinese financial forum. Matolcsy met the leaders of the Bank of China and reportedly suggested that it purchase MKB bank from the state.

Hungary uses EU funds obtained for environment and energy projects:

Hungary has used all funds to which it was entitled under the Environment and Energy Operational Programme for the 2007-13 EU budget period. It had appeared earlier that Hungary would lose Ft 300 billion, but in the last two years 60% of the total available amount of Ft 1.5 trillion was drawn.

ÁÁK plans bond issue with Euro, Dollar or Yuan: Hungarian debt agency, ÁKK, plans to issue €1 billion worth of foreign-denominated bonds this year, CEO György Barcza said. The bonds could be issued in euros, dollars, yuan, or any combination of the three, he added. Hungary chose Bank of China to canvass potential investors on their interest in a possible yuan-denominated sovereign bond, the first from central Europe.

Inflation gathers some momentum: Consumer prices accelerated to 0.9% year-on-year in December 2015, the highest level in two years, following a 0.5% rise in November, the Central Statistics Office announced.

Agricultural prices 5% higher: Agricultural producer prices were up 5.5% year-on-year, in November 2015, the Central Statistics Office announced.

Trade surplus set for record high: Hungary's trade surplus rose to a new high in 2015, showing a €7.4 billion surplus for January-November. Exports reached €83.9 billion and imports to €76.4 billion, increases of 7.0% and 6.3%, respectively. EU member states received 81% of Hungary's exports and provided 76% of imports.

2015 budget deficit at Ft 1.2trn: The budget deficit was Ft 1.219 trillion in 2015, Ft 326 billion above the target, the Economy Ministry announced. The higher figure is due to the suspension of Ft 560 billion in EU funds, and the deficit was probably close to 2% of GDP, below the 2.4% target, the ministry said.

State debt at 78% of GDP: The gross state debt stood at Ft 25.9 trillion at the end of the third quarter of 2015, amounting to 78% of GDP. The net debt was Ft 22.9 trillion, or 69% of GDP, down from 69.7% three months earlier.

Real wages up 5% in November: Real wages have been rising for 35 months, the Economy Ministry noted as the Central Statistics Office released data showing 5.3% year-on-year growth in wages in Nov 2015.

Unemployment lower in Q4: The average number of unemployed was 281,000 during October-December 2015, down from 319,00 one year earlier, the Central Statistics Office announced.

Industrial output data confirmed: Industrial output was up 9.5% year-on-year in November and 7% higher according to final workday-adjusted data released by the Central Statistics Office. Car production and related industries, such as electronics and tyre making, made the largest contribution to the growth in output.

Commercial

GVH fines Banking Association Ft 4bn over data sharing: The Competition Office (GVH) has fined the Banking Association Ft 4 billion and International Training Centre for Bankers Ft 15 million after concluding that banks in Hungary had formed an "information cartel". The two organisations operated a database for 12 years that allowed banks to access and share confidential data in violation of Hungarian and EU laws. The Association said it would challenge the ruling, which could indirectly affect 33 banks in Hungary.

Foreign tourists up in Hungary: Growth in tourism was higher in Hungary than anywhere else in Europe, up 19.1% year-on-year in the first three quarters of 2015, Hungarian Tourism announced. The 11 million foreign tourists that visited Hungary last year spent Ft 95.6 billion, up 15.2% from the same period of 2014.

Neriva to build morphine factory: Neriva Pharma is beginning construction of a morphine factory in Abaújszántó, Borsod-Abaúj-Zemplén county. The factory will take over the role earlier filled by the Alkaloida factory in Tiszavasvár. Poppies are farmed on 3,000 hectares and are exported with the help of Neriva. The company will invest over Ft 5 billion in processing 15,000 tons of poppies annually.

Another boost for Audi's Győr plant: Audi is relocating the production of its SUV model Q3 from Spain to Győr as part of a wider production reallocation around Europe, the German carmaker announced. This will be the fifth Audi model produced in Hungary.

Lego expanding in Nyíregyháza: Lego is investing Ft 30 billion to double its factory in Nyíregyháza, creating 1,600 jobs by 2020, raising the number of employees to 4000 the Danish toymaker announced. The government is supporting the project with Ft 4.4 billion.

Budapest Airport hits record in 2015: The number of passengers arriving and departing from Liszt Ferenc International Airport reached a new record high of 10.2 million in 2015, up 12.5% from 9 million in 2014, Budapest Airport CEO Jost Lammers announced.

Bridgestone to double capacity: Japanese tyre manufacturer Bridgestone will double annual production at its plant in Tatabánya to 6.5 million by 2020 as a result of a Ft 71.5 billion investment that started in 2013, increasing the payroll from 700 to 850.

Bilateral

Trends in bilateral trade:

Source: Central Statistical Office (www.ksh.hu)

Global trade of Hungary (USD, EUR billion)

| | 2013 | 2014 | 2014 Jan-Nov | 2015 Jan-Nov | % change |
|----------------|------------------|------------------|------------------|------------------|---------------|
| Global imports | 99.3 USD | 104.3 USD | 96.6 USD | 84.9 USD | -12.1% |
| | 74.7 EUR | 78.2 EUR | 72.1 EUR | 76.5 EUR | +6.0% |
| Global exports | 108.0 USD | 112.8 USD | 104.7 USD | 93.2 USD | -10.9% |
| | 81.3 EUR | 84.5 EUR | 78.2 EUR | 83.9 EUR | +7.4% |
| Total | 207.3 USD | 217.1 USD | 201.2 USD | 178.2 USD | -11.5% |
| | 156.0 EUR | 167.2 EUR | 150.3 EUR | 160.4 EUR | +6.7% |

Bilateral Trade (USD, EUR million)

| | 2013 | 2014 | 2014 Jan-Nov | 2015 Jan-Nov | % change |
|-------------------|------------------|------------------|------------------|------------------|---------------|
| Import from India | 365.6 USD | 385.1 USD | 363.0 USD | 344.6 USD | -5.0% |
| | 275.0 EUR | 286.7 EUR | 269.0 EUR | 310.1 EUR | +15.3% |
| Export to India | 216.9 USD | 210.5 USD | 187.4 USD | 184.4 USD | -1.6% |
| | 162.8 EUR | 157.3 EUR | 138.9 EUR | 166.1 EUR | +19.6% |
| Total | 582.5 USD | 595.6 USD | 550.3 USD | 529.0 USD | -3.9% |
| | 437.8 EUR | 444.0 EUR | 407.8 EUR | 476.2 EUR | +16.8% |

Top 10 items of Export to the World 2015 Jan to Nov (USD)

| No | Item | % Growth | % Total |
|----|--|----------|---------|
| 1 | 85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES | -9.1% | 20% |
| 2 | 84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF | -10.8% | 19% |
| 3 | 87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF | 1.3% | 18% |

| | | | |
|-----------|--|--------|----|
| 4 | 30 PHARMACEUTICAL PRODUCTS | -6.5% | 5% |
| 5 | 39 PLASTICS AND ARTICLES THEREOF | -10.5% | 4% |
| 6 | 90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF | -28.6% | 3% |
| 7 | 40 RUBBER AND ARTICLES THEREOF | -9.1% | 2% |
| 8 | 27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES | -38.0% | 2% |
| 9 | 94 FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS; LAMPS AND LIGHTING FITTINGS, NOT ELSEWHERE SPECIFIED OR INCLUDED; ILLUMINATED SIGNS, ILLUMINATED NAME-PLATES AND THE LIKE; PREFABRICATED BUILDINGS | -10.4% | 2% |
| 10 | 10 CEREALS | -5.6% | 2% |

Top 10 items of Import from the World Jan to Nov (USD)

| No | Item | % Growth | % Total |
|-----------|--|-----------------|----------------|
| 1 | 85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES | -7.1% | 20.5% |
| 2 | 84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF | -7.9% | 17.3% |
| 3 | 87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF | -4.1% | 10.4% |
| 4 | 27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES | -39.5% | 8.1% |
| 5 | 39 PLASTICS AND ARTICLES THEREOF | -9.5% | 4.6% |
| 6 | 30 PHARMACEUTICAL PRODUCTS | 1.4% | 4.3% |
| 7 | 73 ARTICLES OF IRON OR STEEL | -12.0% | 2.3% |
| 8 | 72 IRON AND STEEL | -26.6% | 2.0% |
| 9 | 90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF | -9.1% | 2.0% |
| 10 | 40 RUBBER AND ARTICLES THEREOF | -11.0% | 2.0% |

Top 10 items of export to India 2015 Jan to Nov (USD)

| No | Item | % Growth | % Total |
|----|--|----------|---------|
| 1 | 84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF | -5.4% | 38.5% |
| 2 | 85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES | 27.1% | 21.5% |
| 3 | 29 ORGANIC CHEMICALS | 7.0% | 11.5% |
| 4 | 87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF | 51.2% | 4.9% |
| 5 | 39 PLASTICS AND ARTICLES THEREOF | -16.1% | 3.9% |
| 6 | 90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF | -47.5% | 3.5% |
| 7 | 48 PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR OF PAPERBOARD | -18.6% | 2.2% |
| 8 | 73 ARTICLES OF IRON OR STEEL | -25.4% | 2.0% |
| 9 | 74 COPPER AND ARTICLES THEREOF | 0.7% | 1.9% |
| 10 | 94 FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS; LAMPS AND LIGHTING FITTINGS, NOT ELSEWHERE SPECIFIED OR INCLUDED; ILLUMINATED SIGNS, ILLUMINATED NAME-PLATES AND THE LIKE; PREFABRICATED BUILDINGS | -40.9% | 1.4% |

Top 10 Items of Import from India 2015 Jan to Nov (USD)

| No | Item | % Growth | % Total |
|----|--|----------|---------|
| 1 | 84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF | 11.6% | 25.4% |
| 2 | 29 ORGANIC CHEMICALS | -12.4% | 23.5% |
| 3 | 30 PHARMACEUTICAL PRODUCTS | 2.3% | 19.9% |
| 4 | 85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES | -10.9% | 14.2% |
| 5 | 87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF | -7.5% | 2.6% |
| 6 | 64 FOOTWEAR, GAITERS AND THE LIKE; PARTS OF SUCH ARTICLES | -29.7% | 1.8% |
| 8 | 40 RUBBER AND ARTICLES THEREOF | 2.1% | 1.6% |
| 7 | 73 ARTICLES OF IRON OR STEEL | -22.5% | 1.3% |
| 9 | 39 PLASTICS AND ARTICLES THEREOF | -30.7% | 1.1% |
| 10 | 24 TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES | 124.5% | 0.7% |

Average Monthly Exchange rates for Jan 2016

1US\$= 289.75 HUF

1EUR= 314.80 HUF

Source: MNB-Hungarian National Bank www.mnb.hu

Upcoming Trade Fairs in Hungary:

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|---|
| (I) <u>BUDAPEST MOTORCYCLE FESTIVAL</u> 18 - 20th March 2016 |
| (II) <u>CONSTRUMA</u> 6 - 10th April 2016 |
| (III) <u>HOME DESIGN</u> 6 - 10th April 2016 |
| (IV) <u>SIRHA INTERNATIONAL GASTRONOMY EXHIBITION</u> 9-11 May 2016 |
| (V) <u>INDUSTRY DAYS</u> 24 - 27th May 2016 |

Further information: www.hungexpo.hu

Trade enquiries: In the month of January 2016 Embassy of India, Budapest received 20 enquiries from India and 1 trade enquiries from Hungary.

Indian Trade inquiries for the month of January 2016

| S. No. | Enquiry originator | Product | HS codes | Nature Export/Import value (\$ mln) | Action taken |
|--------|--|---|----------|--|--------------------------------|
| 1 | Vipul Dye Chem Ltd | Chemicals: Dyes | | Export to Hungary | All queries have been answered |
| 2 | Akshar Enterprises | Agro | | Export to Hungary | |
| 3 | Shisaa export | Agro: Spices | | Export to Hungary | |
| 4 | Fixin's Worldwide Trading | Coir, Coco | | Export to Hungary | |
| 5 | Ridhisati International | Textile fabrics | | Export to Hungary | |
| 6 | 1World Ingredients | Agro: vegetables, fruits, spices, etc. cotton | | Export to Hungary | |
| 7 | Jupiter Exim Trade | Agro: vegetables, fruits, spices, IT Software | | Export to Hungary | |
| 8 | Remax Corporate Services | Real estate | | Joint venture, cooperation, with Hungary | |
| 9 | Alfa Dehydration Ltd | Agro: vegetable | | Export to Hungary | |
| 10 | Selective Creation | Misc: Textile, Handicrafts, Vege, Spices, Tobacco | | Export to Hungary | |
| 11 | Arughan & Co | Misc: Banan fibre, Handicrafts, jute, herbs | | Export to Hungary | |
| 12 | Sarjena Foods Pvt. Ltd. | Food: Confectionary, biscuits | | Export to Hungary | |
| 13 | DISA-Defense and Strategic Industries Association of India | Defense | | Investors, cooperation | |
| 14 | Natural AgroEx | Agro: nuts and seeds | | Export to Hungary | |
| 15 | R.C.Enterprise | Bags | | Export to Hungary | |
| 16 | Anu Nature Exports/ALS Exports | Food industry: Natural plates | | Export to Hungary | |
| 17 | JKR Exports | Textiles: garments | | Export to Hungary | |

| | | | | | |
|----|-----------------------------------|---------------------------------|--|---|--|
| 18 | Raj Burhani Textile Exports | Textiles | | Export to Hungary | |
| 19 | Oceanage Antiques house | Handicrafts: gifts, decor items | | Export to Hungary | |
| 20 | ACME Cleantech Solutions Pvt. Ltd | Power: electrical equipment | | Joint venture, cooperation, export to Hungary | |

Bosnia & Herzegovina (BiH)

Federation of BiH PM Claims Federation Ends Six-Year Recession: Prime Minister of the Federation of Bosnia and Herzegovina Fadil Novalic said that the Federation has officially come out from recession after six years, with figures showing an apparent increase in the GDP by two percent for 2015. GDP growth in the 4th quarter was 3.1%. Industrial production increased by 3.17%; export grew by 4.7%, and for the first time in post-war history export-import ratio of 57.7% was recorded.

FDI Fall by 55% in Jan-Sept: Foreign direct investments in Bosnia and Herzegovina dropped to 218.9 million KM in the first nine months of 2015 from 483.9 million KM a year earlier, data of the Central Bank of BiH indicated. In 2014, FDI in Bosnia totaled 739.5 million KM, up 66.2% from a year earlier.

Plan Approved to Sell Government Stakes in Six Companies in 2016: BiH's privatization agency's plans the sale of government equity in six major companies - drug maker Bosnalijek, engineering company Energoinvest, fuel retailer Energopetrol, aluminium smelter Aluminij, tobacco factory Fabrika Duhana Sarajevo and insurer Sarajevo Osiguranje. The Federation government owns 19.25% of Bosnalijek, 67% of Energoinvest, 22.1% of Energopetrol, 39.9% of FDS, 44% of Aluminij and 45.5% of Sarajevo Osiguranje.

BiH's 2015 Trade Gap Narrows 8.7%, Jobless Numbers Down 1.9%: Bosnia and Herzegovina's trade gap narrowed 8.7% to 6.9 billion KM in the period from January until December 2015. Exports rose 3.5% on the year to 8.99 billion KM in 2015, while imports decreased 2.1% to 15.85 billion KM. The number of unemployed people in Bosnia declined by 1.9% on the year to 536,659 at the end of November. Consumer prices in Bosnia and Herzegovina decreased 1.3% on the year in December.

Bosnia Is Losing Battle against Corruption: Transparency Watchdog: Transparency International Bosnia and Herzegovina presented the results of the Corruption Perception Index (CPI) for 2015, according to which BiH ranks 76th among 168 countries and territories of the world, with the score of 38 on a scale of 0 to 100. According to Transparency International, in the past few years, BiH has not only stagnated but has entered a deepening crisis and a growing problem with corruption.

Arms Industry Records Steady Growth: Military industry in BiH is one of five sectors that recorded the best results in terms of foreign trade. According to the Ministry of Foreign Trade and Economic Relations, in 2015 it issued licenses for exporting military equipment, weapons and dual-use products, worth 310 million Euros, up 100% from 2014.

TRADE FAIRS in Bosnia and Herzegovina

| | | | | |
|----------------|--|--|----------------------|--|
| Sagra Sarajevo | International Trade Fair and Conferences on Energy Efficiency in Buildings | Center Skenderija Sarajevo | 09. - 10. March 2016 | www.skenderija.ba |
| Exterio | International trade fair for landscaping, architecture and horticulture | Center Skenderija Sarajevo | 09. - 10. March 2016 | www.skenderija.ba |
| Interio | International fair of forestry, wood, furniture and interior design | Center Skenderija Sarajevo | 09. - 10. March 2016 | www.skenderija.ba |
| Mostar | Mostar International Business Fair, multi-sector | Mostarski sajam doo Rodoč bb, 88000 Mostar | 12-16. April 2016 | www.mostar-fair.com |
| Energa | International trade fair for energy, industry and mining | Stadion TušanjTuzla | 07-09 June 2016 | www.tuzlanskisajam.ba |

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|------|-----------------------------------|---------------------------------|---------------|---|
| | | | | |
| Zeps | 23 rd General B&H Fair | Kamberovića polje, in Zenica | 04-08.10.2016 | http://zeps.com |

<http://www.tradefairdates.com/Fairs-Bosnia-and-Herzegovina-Z18-S1.html>

Average Monthly Exchange rates for January 2016

1US\$= 1.800089 KM

1EUR= 1.955830 KM

Source: Central Bank BIH <http://cbbh.ba>

This issues with the approval of Ambassador.

Vijay Khanduja
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Embassy of India
Budapest