

Embassy of India Budapest

Economic and Commercial Report for the month of December 2016

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Economic

Bloomberg reports on Hungary's "Potemkin economy": Hungary's economic outlook is marred by "allegations of cronyism and intervention that undermine competitiveness," news agency Bloomberg reported. Hungary is becoming a "Potemkin economy" as "it looks good from the outside, but is deteriorating inside," head of the Hungarian chapter of Transparency International József Péter Martin said. Analyst Evghenia Sleptsova of Oxford Economics told the news agency that "Hungary is a story of a gradual decline of growth and growth potential as a result of state capitalism, which is being propped up by short-term interventionist measures". Companies are reluctant to invest in Hungary, because they mistrust the government in the absence of transparency and predictability, according to analyst Anders Svendsen of Nordea Bank. He pointed out that investment in Hungary is down 14% in 2016, and that economic growth is the slowest in three years.

Grey economy still strong: The size of the grey economy in Hungary was equivalent to 21.9% of GDP in 2015, CEO Ágoston Sámuel Mráz of government-leaning research institute Nézópont said. He said this figure has fallen from 25% of GDP in 2003, and 23.3% in 2010, but remains much higher than the 10% average in Western-Europe.

OECD sees productivity low in Hungary: Hungary's economy expanded rapidly after the 2008 recession, but its per capita income is still the fourth lowest in the OECD, the organisation reported. The low income can be explained by the low productivity, in which growth has slowed down since the crisis, the OECD argued in its Science Technology and Innovation Outlook 2016. Hungary is spending more on research and development but at 1.37% of the annual budget, is still well below the OECD average. Only 33% of research and development funding comes from the state, as most of it is financed by EU structural funds.

Hungary joins OECD tax programme: Hungary has joined OECD's tax cooperation programme, closing loopholes for tax evasion, the Economy Ministry said. The 50 signatory members can exchange information about large multinational companies and gain an understanding of how these companies structure their operations and pricing arrangements. The agreement will pave the way for the tax authority to obtain up-to-date information on multinational companies and their subsidiaries, the ministry added. Parliament is expected to ratify the pact in early 2017.

Hungary keen to develop ICT sector: Hungary is well suited to exploit the potential of the fourth industrial revolution and is ranked well in the technological race, Economy Ministry State Secretary Péter Cseresnyés said at a conference organised by T-Systems. The ministry is working on a strategy for the information and communications technology (ICT) sector aimed at increasing employment by 20,000 in three years and boosting output by 5%, he said. With multiplier effects, the sector's output could lift Hungary's GDP by Ft 200 billion (appx €643 mln) and create 50,000-60,000 jobs by 2020, Mr. Cseresnyés added. He noted that 400,000 people work in Hungary's ICT sector, producing 8.3% of the GDP, the third highest figure in the EU.

GDP growth for 2016 revised upwards to 2.2%: The Central Statistics Office has revised its calculation of third-quarter GDP growth from the preliminary figure of 2% year-on-year to 2.2%. The figure remains lower than the 2.8% growth recorded in the second quarter. GDP growth was 2.1% in the first three quarters of 2016.

Ministry predicts 4% growth in 2017: The Economy Ministry is expecting 4.1% GDP growth in 2017, rather than the 3.1% projected in the 2017 budget approved in the summer. Economy Minister Mihály Varga said that growth could be significantly above the 3.1% estimate. The Central Bank MNB also raised its economic growth forecast from 3% to 3.6% and its inflation forecast from 2.3% to 2.4% for 2017 in its quarterly inflation report.

MNB stands by loose monetary policy: Monetary council members voted unanimously to keep the base rate at 0.9% and to reduce the overnight lending rates from 1.05% to 0.9%. Policymakers also cut the one-week lending rate by ten basis points to 0.9%. There was consensus that maintaining the base rate at the current level is in line with achieving the medium-term inflation targets.

Prime Minister welcomes Gazprom President: PM Viktor Orbán met Gazprom Chairman Viktor Zubkov in Parliament on 5th December to mark the 20th anniversary of the Russian-Hungarian gas treaty. The two parties spoke of upgrading and continuing cooperation. Also attended by Development Minister Miklós Seszták and Prime Minister's Office leader János Lázár, the meeting focused on the security and sustainability of an affordable gas supply for Hungary, for which long-term agreements are particularly important. The Russian company said it is ready for new business opportunities in Hungary with a focus on gas storage and is looking for long-term cooperation as it is involved in infrastructure projects such as building the Turkish Stream and Nord Stream 2 pipelines.

New bill stipulates 9% corporate tax: The Economy Ministry filed a 31-page tax bill in Parliament on 5th December that modifies several hundred clauses in 21 laws. The so-called social contribution, a labour tax paid by employers, will fall from 27% of salary to 22% in 2017 and to 20% in 2018. Company tax will be cut to 9% for all companies. At present the tax is 19% for those businesses with annual revenues of at least Ft 500 million (appx €1.61 mln), and 10% for all others.

Parliament endorses 6-year wage deal: Parliament approved the new tax laws, paving the way for a higher minimum wage and lower corporate tax based on the six-year wage agreement signed with employers and employees in November 2016. According to the agreement signed earlier, the monthly minimum wage will be increased by 15% in 2017 and the minimum wage for skilled labour will go up by 25%. A further 8% and 12% rise will follow in 2018. The social contribution tax, paid by employers will be cut from 27 to 22% in 2017 and to 20% in 2018. The corporate tax rate will be trimmed to 9% from 10% and 19%. The measures will help Hungary's competitive position, Varga noted.

Industrial output down: The industrial output in October went down 2.1% year-on-year, the Central Statistics office announced. Industrial exports were down 4% while domestic sales dropped 6.5%. The seasonally and workday adjusted output went up 2% from September to October. In the first ten months, the industrial output has increased 1.1% year-on-year.

Construction dives: The output of the construction industry dived 12.8% year-on-year in October 2016, the Central Statistics Office announced. The construction of buildings dropped by 7.2% and the construction of other objects plummeted by 18.2%.

GKI sees labour shortage at SMEs: SMEs in Hungary are missing a total of 340,000 workers, according to a survey commissioned by economics institute GKI. Companies with 20-50 employees face a 9% labour shortage and companies with 150-250 employees see a 6% labour shortfall. The lack of labour supply is most felt in light industry and in business services.

Deadline looms for new cash registers: A decree coming into force on January 1, 2017 will extend the mandatory use of online cash registers to taxis, fitness clubs, beauty salons, plastic surgeons and car repair shops, among others. The ministry has contacted some 10,000 small businesses – roughly half of all companies compelled by the decree to obtain the new devices. Businesses that do not install online cash registers by December 31 as required by regulations will not be eligible for the Ft 50,000 (appx €161) state subsidy, the Economy Ministry said.

Commercial

MOL forms partnership with Budapest waterworks: MOL has signed a cooperation agreement with Fővárosi Vízművek, the Budapest city-owned water management company. The two companies are aiming to bid for international infrastructure development contracts by utilising their synergies. According to its strategy to 2030, MOL is broadening its product range, in part by entering the business services market. Fővárosi Vízművek is also seeking new sources of income, including in foreign markets.

OTP faces damages case: OTP bank announced that an assignee of one of its borrowers has turned to the arbitration court of the International Chamber of commerce seeking €25.4 million in damages from the bank. The foreign company argues that OTP failed to fulfil its contractual duties in a credit agreement.

Videoton on stable growth path: Revenues at the Videoton group is set to rise to Ft 160 billion (appx €514 mln) in 2016, up from Ft 150 billion (appx €482mln) in 2015, Chairman and CEO Gábor Széles said on the company's 25th birthday. Over the last quarter century Videoton saw its equity rise to Ft 100 billion (appx €322 mln) and it spent Ft 73 billion (appx €235 mln) on new technologies, while net debt has fallen to zero, Széles added. Videoton growth has outpaced the rest of the industry and is financing capital expenditures from its own sources, Széles said. The Székesfehérvár-based company is the largest Hungarian-owned industrial group with nine units in Hungary and a subsidiary in Bulgaria.

Mercedes agrees to 10% wage increase: Wages at Mercedes factory in Kecskemét will be boosted by 20% over the next two years, according to a two-year agreement between labour unions and management. Bonus payments and fringe benefits will also rise, deputy leader of Vasas union Zoltán László said. Management offered a 4-5% increase in the base salary a couple of months ago, László said.

Upcoming Trade Fairs in Hungary:

(I) CONSTRUMA 5-9th April 2017 –International Construction industry and Homemaking exhibition
(II) CONSTRUMA GARDEN 5-9 th April 2017 –Exhibition on landscaping, garden planning
(III) HOME DESIGN 5-9 th April 2017 - Exhibition on Interior Decoration, Design
(IV) RENEO 5-9 th April 2017 – International exhibition on Renewable Energy, building engineering

Further information: www.hungexpo.hu

Trends in bilateral trade: Source: Central Statistical Office (www.ksh.hu)

2016 January-October trade (USD, EUR billion)

	Hungary's Exports	Hungary's Imports	Total	% growth of trade over last period		% change of Total trade over last period
				Export	Import	
India	150.0 USD	316.6 USD	466.5 USD	-11.5%	-0,3%	-4.2%
	134.4 EUR	283.6 EUR	418.0 EUR	-11.9%	-0.7%	-4,6%
World	86.3 USD	76.7 USD	163.1 USD	2.5%	0.8%	1.7%
	77.4 EUR	68.8 EUR	146.2 EUR	2.4%	0.7%	1.6%

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

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	112,536.9	100,387.6	-10.8%	100%
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	22,201.1	20,074.7	-9.6%	20%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	21,090.3	18,902.4	-10.4%	19%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	17,814.6	18,003.0	1.1%	18%
30 PHARMACEUTICAL PRODUCTS	4,990.3	4,822.7	-3.4%	5%
39 PLASTICS AND ARTICLES THEREOF	4,303.3	3,834.5	-10.9%	4%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	4,591.4	3,311.8	-27.9%	3%
40 RUBBER AND ARTICLES THEREOF	2,607.9	2,373.8	-9.0%	2%
27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES	3,778.6	2,334.2	-38.2%	2%
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	1,969.5	1,760.6	-10.6%	2%

Top 10 items of import from the World (USD mln)

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	104,188.1	91,384.8	-12.3%	100%
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	20,096.9	18,693.9	-7.0%	20%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	17,232.4	15,592.7	-9.5%	17%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	9,839.7	9,516.3	-3.3%	10%
27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES	12,480.1	7,432.8	-40.4%	8%
39 PLASTICS AND ARTICLES THEREOF	4,582.1	4,167.8	-9.0%	5%
30 PHARMACEUTICAL PRODUCTS	3,874.0	3,958.2	2.2%	4%
73 ARTICLES OF IRON OR STEEL	2,380.8	2,104.7	-11.6%	2%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	2,054.4	1,923.7	-6.4%	2%
40 RUBBER AND ARTICLES THEREOF	2,018.8	1,836.2	-9.0%	2%
72 IRON AND STEEL	2,474.1	1,835.7	-25.8%	2%

Top 10 items of Export to India 2015 (USD mln)

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	210.5	213.8	1.6%	100%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	86.8	77.6	-10.6%	36%
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	34.9	52.2	49.7%	24%
29 ORGANIC CHEMICALS	22.5	26.6	18.1%	12%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	6.1	9.4	53.2%	4%
39 PLASTICS AND ARTICLES THEREOF	9.4	7.5	-20.3%	4%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	13.0	7.1	-45.3%	3%
48 PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR OF PAPERBOARD	5.4	4.5	-16.1%	2%
73 ARTICLES OF IRON OR STEEL	5.7	4.0	-30.8%	2%
74 COPPER AND ARTICLES THEREOF	3.8	3.8	-0.5%	2%
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	5.0	2.9	-42.7%	1%

Top 10 items of Import from India 2015 (USD mln)

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	385.1	364.9	-5.2%	100%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	82.3	94.4	14.7%	26%
29 ORGANIC CHEMICALS	97.5	84.5	-13.3%	23%
30 PHARMACEUTICAL PRODUCTS	72.8	72.6	-0.2%	20%
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	58.3	51.2	-12.2%	14%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	9.8	9.2	-5.7%	3%
64 FOOTWEAR, GAITERS AND THE LIKE; PARTS OF SUCH ARTICLES	9.4	6.4	-32.0%	2%
40 RUBBER AND ARTICLES THEREOF	5.6	5.7	2.6%	2%
73 ARTICLES OF IRON OR STEEL	6.1	4.7	-23.5%	1%
39 PLASTICS AND ARTICLES THEREOF	5.5	4.0	-26.7%	1%
41 RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	3.6	2.4	-32.8%	1%

Average Monthly Exchange rates for December 2016

1US\$= 293.69 HUF

1EUR= 311.02 HUF

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

Trade enquiries: In the month of December 2016 Embassy of India, Budapest received 12 enquiries from India and 1 trade enquiry from Hungary.

Indian Trade inquiries for the month of December 2016

S. No.	Enquiry originator	Product	HS codes	Nature Export/Import value (\$ mln)	Action taken
1	Wilson Enterprises	Miscellaneous		Export to Hungary	All inquires have been answered
2	Jetking Computer	IT Training Services		Cooperation with Hungarian cos	
3	Amber Engineering Enterprise	Engineering: Electric motors, machinery		Export to Hungary	
4	LNB ODIEX	Agro: Spices		Export to Hungary	
5	Jaydeep Patel	Miscellaneous		Export to Hungary	
6	H Care Products (I) Pvt. Ltd	Medical equipment, furniture		Export to Hungary	
7	Yash Udyog	Engineering: Misc products		Export to Hungary	
8	Frangipani Enterprises	Engineering: steel		Export to Hungary	
9	Jay enterprise	Agro: seeds, spices		Export to Hungary	
10	SS B Exports	Miscellaneous		Export to Hungary	
11	Govindam Flavours	Cosmetics		Export to Hungary	
12	Coco Impex	Misc: Laminate sheet, Kitchen equip, Sanitary ware, tiles		Export to Bosnia, Hungary	

Bilateral

Business Seminar: Embassy of India, Budapest organized an India-Hungary Business Seminar on 16th December 2016. The aim was to inform potential investors and business persons from Hungary about the opportunities offered by India. Ambassador Rahul Chhabra gave an overview of developments taking place in India in various fields, especially the economy and business environment. H.E. Mr Peter Cseresnyes, State Secretary for Employment, Ministry of Economy and Chair of the Hungary-India IPU friendship group was Chief Guest. Mr Cseresnyes took stock of the progress made on the initiatives announced during the Joint Commission Meeting held in June in Budapest, and also mentioned about the opening up of two offices of the Hungarian National Trading House (HNTH) in Delhi and Bengaluru in the second half of November 2016. Dr. Pana Petra, Dy State Secretary, Ministry of Foreign Affairs and Trade who led a delegation to India for the India-Europe29 Business Forum on 8-9 December 2016 shared her experiences of the visit. She called for collaboration in areas of complementarities between the two countries such as clean-tech, pharmaceuticals, chemicals, bio-tech, auto-components, etc. M/S Longwealth Gmbh shared their own practical experiences of doing business in India and dealt with the misconceptions associated with India and the way of doing business. On behalf of M/S Anadi Bank and other promoter companies, they informed about the new funding tools available, since many companies in the region with good technologies are locked up because they are not able to clear the past loans. This was followed by a speech by Mrs. Eszter Harsányi about Magikme, a company with an inclusive playground project for children with special needs, who shared her experience of participation in the India-Europe29 Business Forum. The seminar was attended by overall 60 persons from various business circles.

Bosnia & Herzegovina (BiH)

Pakistan's PM Nawaz Sharif Visits BiH on Official Visit: Pakistan PM visited BiH from 20-22 December, 2016. He was accompanied by Begum Kulsoom Nawaz and his Special Assistant on Foreign Affairs Tariq Fatemi. During his visit, PM Sharif met with members of Bosnia and Herzegovina's Presidency, the leaders and members of the lower and upper houses of parliamentary assembly and also the head of the national Islamic Community, Husein Kavazovic. While reviewing the entire spectrum of bilateral relations, both sides underlined the importance of further deepening of political, trade and economic ties, defence cooperation, inter-parliamentary linkages and enhancing cultural and educational relations. The Bosnian side evinced interest in benefiting from Pakistan's expertise in the textile sector. Both sides agreed to exchange defence and trade delegations. The Chairman of the Council of Ministers invited Pakistan to participate in the agricultural exhibition in Mostar early in 2017, which was accepted. Views were also exchanged on regional and international issues, noting commonality of perspectives. The Prime Minister also addressed Bosnia and Herzegovina's Business Forum and met the members of Foreign Trade Chamber and Foreign Investment Promotion Agency.

Banks Record Over One Billion KM in Revenue: Banks in Bosnia and Herzegovina recorded a total profit of 217.1 million KM in the first nine months of 2016, while three banks operated a loss, totaling 48.5 million KM. Total revenue of banks in BiH in this period amounted to approximately 1.048 billion KM, data of the entity banking agencies showed.

Wizz Air Announces Budapest-Sarajevo Route as of 2017: The new routes will connect Budapest with five capitals of countries in the West Balkan region, Skopje in Macedonia, Podgorica in Montenegro, Tirana in Albania, Pristina in Kosovo and Sarajevo in Bosnia and Herzegovina. Wizz Air said the routes will connect the countries directly, boost bi-directional tourism and establish an important link for trade and business. Chief executive officer Jozsef Varadi said that the announcement further underlines the company's commitment to Hungary as de facto Hungarian national carrier. Sarajevo Airport said that talks with Wizz Air were completed and the first flight of this company on Sarajevo-Budapest route would be expected in April 2017. It also said that a range of incentives were introduced in a bid to make the Sarajevo Airport more appealing to airlines and attract budget carriers. They include discounts for takeoff and landing for new destinations and increases in frequencies. Airlines that base an aircraft in Sarajevo will enjoy a 50% discount for handling and landing. Some carriers have avoided Sarajevo Airport due to a double tax surcharge. Fees have been a sticking point in the airport's talks with Wizz Air earlier.

Bosnia Maintains Highest Unemployment Rate in Region: According to the Directorate for Economic Planning (DEP), "Economic Trends for January-June 2016" report the unemployment rate in BiH was 25.4 percent in the first half of 2016, down by 2.3 percent compared to the same period in 2015, but it is the largest in the region, almost three times higher than in Slovenia and Bulgaria. The unemployment rate in Macedonia stood at 24.3 percent in 2016, followed by Montenegro with a rate of 18.3 percent, Serbia 17.1 percent and Croatia 14.1 percent.

TRADE FAIRS in Bosnia and Herzegovina

MOSTAR SAJAM	General International Trade Fair	Mostar	April 2017	www.mostar-fair.com
ENERGA TUZLA	international trade fair for energy, industry and mining	Tuzlanski Sajam d.o.o	June 2017	www.tuzlanskisajam.ba

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

Average Monthly Exchange rates for December 2016

1US\$= 1.856330 KM

1EUR= 1.955830 KM

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

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Budapest