

DOING BUSINESS IN HUNGARY

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I. The economy of Hungary

GDP	1990	1991	1992	1993
GDP bn Forint	2080	2300	2300	3300*
Real GDP % change over previous year	-3	-10	-5	-2
GDP per Capita \$				3500

Industrial, agricultural output	1990	1991	1992	1993
Industrial output % change over previous year, in value	-10	-9	-10	+4(!)
Agricultural output % change over previous year, in value	-5	-6	-20	-6

Inflation rate	1990	1991	1992	1993
Inflation's %	29	35	23	22

* Exchange rate : 1 Forint - 2,45 GDR

1 \$ - 103 Forint

Unemployments	1990 January	1991 January	1992 January	1993 January	1994 January
Number of unemployed thsd	23	100	442	694	632
Rate of unemployment %	0,5	2	8	13	12

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Budget deficit	1991	1992	1993
Budget deficit bn Forint	115	197	200
Budget deficit / GDP, %	5	7	6

Budapest stock Exchange Index	1991 May	1992 January	1993 January	1994 January
	1010	800	760	1520(!)

Trade balance and balance of payments, \$ bv	1990	1991	1992	1993
Exports	10,8	9,3	10,02	8,9
Imports	12,6	9,1	10,07	12,5
Trade balance	-1,8	+0,2	-0,05	-3,6
Current account of payments	-0,3	-0,3	-3	
Overall balance of payments	2,7	0,8		

Number of companies, thsd

April 1992 59

January 1993 71

December 1993 86

The secret reserve: a substantial black economy.

II. Doing business with Hungary

Language : more and more English.

Invoicing currency : any convertible, mainly USD and DEM.

Technical standard : German DIN is best-known.

Payment guarantees important!

Investment and Trade Development Agency (ITD)

Hungarian Investcenter Tradeinform

Hungarian Chamber of Commerce and Industry

Presently

From 1985 onward

Obligatory membership:

- Regional chambers
- Professional Associations
- Country sections
- Industrial and Commercial
- Agricultural
- Small handicraft

Association agreement with EU 10 years transition period

Free Trade agreements with CEFTA, EFTA, Slovenia

70% of all Hungarian trade effected with "free trade countries"

Wide liberalization:

- 90% of imports free, without import license
- 80% of Hungarian production not protected

III. Investment and joint ventures in Hungary

Hungary - most frequented by foreign capital in Eastern Europe.

Total foreign investment: 7,5 bn USD.

New joint ventures

1990	2.000
1991	5.600
1992	4.100
1993	4.800
Total	15.000

Why to choose Hungary?

- Central geographical location - cross point East-West
- Political stability - foreign capital welcome after socialist's election victory, as well
- Experiences in private economy even in the communist era
 - = the economic model 1968 - a trial to imitate market economy
 - = the economy open for joint ventures since the seventies
- Educated work-force, relatively large number of market - tested managers
- Cheap costs in
 - = wages
 - = energy
 - = environmental protection
- Tolerable, gradually upgrading infrastructure

- Investment incentives to foreign investors

Foreign or domestic investors dominating?

Offer	Demand (upper limit)
Total state assets of 20 bn USD >	Total domestic saving 7 bn USD

Local saving not enough to buy up state property.

At state tenders' evaluation local and foreign offers are equally handled.

No mass privatization through free distribution of state property is possible.

A high per capital state foreign debt of 24 bn USD has to be paid back from privatization revenue.

The motivation of foreign capital in Hungary profit by market expansion.

- selling products by exportation to Hungary
 - = less risk
- producing on the spot
 - = more stable market presence
 - = less dependent on foreign exchange situation

Exports of products to Hungary

- Import costs
 - = customs duty
 - = customs clearance fee: 2%
 - = statistical fee: 3%
 - = import license fee: 1% (only for goods under quota)
 - = VAT: 25% basic rate
- Quotas: global Total 750 Mio USD
- Sale on credit terms
- Payment guarantees recommended

Producing locally in Hungary

- Nearly all multinationals are present
- Greek investments above 10 Mio USD

Green field investment - buy-out of existing facilities.

Overwhelming majority of investors acquires existing plants.

Type of investors

- professional (from the same branch) - more wide - spread

- financial - less characteristic

Features of venturing in Hungary

- «consuming - hungry» market
purchasing inclination and power not necessarily in accordance
- not anymore a market dictated by sellers
- de facto convertible currency (forint) for foreign trade
- state guarantee for the investment, supported by bilateral interstate agreements (including Greece)
- free repatriation of profits in foreign currency
- law permits 100% foreign ownership
- low wage level, but not so low social security costs.
 - = minimum wage 100 USD/month
 - = monthly average wage (gross) 250 USD
 - = employee's wages and other incomes are charged by
 - 44% pension and medical insurance covered by the employer
 - 5,2% unemployment fee covered by the employer
 - 1,5% vocational training fee covered by the employer

- 50,7% total employer's fee

Supplement

Tax law amendment as per parliament's approval on 22nd November 1993:

- corporate tax rate reduced to 36%
- loss-making firms are charged with a minimum corporate tax on the basis of 2% of their yearly revenue
- firms with base capital over 1 million \$ or with reinvested profit of 250 thsd \$ are eligible for a special investment incentive
- large ventures over 5 million \$ capital combined with new investments of at least 2 million \$, promoting production in an environment - friendly way, applying modern technology, increasing exports, creating new job opportunities can be tax-enlighted, on individual government decision : Maximum : for 5 years full tax exemption, for further 5 years exemption to an extent of 60%
- off-shore firms are tax-exempted to the extent of 85%.
 - 10% pension and medical insurance paid by the employee
 - 2% unemployment fee paid by the employee

- 12% total employee's fee

Foreign employees exempted if they do not use the state medical service.

- 36% profit tax

4,5% R+D constitution (on previous year's pre-tax profit, charged only for companies with yearly turnover over 280 thsd USD) recently canceled!

Wide range of an allowance

- = healthy cultural sports activity
- = investment in underdeveloped region
- = job-creating investment
- = reducing environmental contamination
- = companies with foreign capital (on individual basis)
- = interest allowance on credits financing exports

- Consumption tax on luxury articles

- Local taxes

Imposed - it at all - by municipalities

- = local business tax up to 8%-o of net annual turnover
- = building, land tax etc.

The magnitude of local taxes is generally of minor importance.

- Double taxation

Series of bilateral agreements aim to avoid it (Greece included)

- VAT

- | | |
|-----|--|
| 25% | base rate |
| 10% | energy, medical products, newspaper, milk, sugar, bread, oil, cultivation of plants, animal husbandry and connecting services etc. |
| 0% | postal services, education, radio-TV-broadcast, sport activity etc. |

All kinds of exports exempted of VAT

- Personal income tax

- Export subsidies

Industry 0%

Agriculture 10-30%

Trade promotion fund applications on

- = infrastructure connecting to new investment
- = contribution to marketing costs while introducing new export articles - exhibitions, prospectus etc.

- Base capital granted in assets
is duty free (cars as well)
Beware capital increase is not!
- Quality control of imported goods:
customs clearance possible only in possession of a Hungarian quality control certificate in case of importing con-sumer goods, food stuff and small machinery.
- Bank loans
Large margin between interest rates on deposits and loans deposits 5-22% p.a. depending on time fixing loans 24-30% p.a. depending on credit worthiness (inflation rate 23%) foreign exchange loans for exports: libor + 2-3%
- Accountancy
New up-to-date law corresponding to Western standard
- Employment of local managers
Best combination: local knowledge with Western management technics
Managers yearly income average 40-50 thsd \$
- Purchase of real estate
For private persons with a license of the Ministry of Finance
For companies with foreign participation: unrestricted possibility to buy real estate necessary for their activity
Exemption: agricultural land
Real estate prices

	Sale	Rent
	\$/m2	\$/m2/year
Office	700-180	180-360
Apartment	600-1300	90-130
		\$/m2
Land	out of town	1-3
	outskirts	5-7
	central	10-40

- Concessions
- Infrastructure
= motorways
= phone
- Off-shore companies (duty-free zones)

- **Marketing costs**
 - advertisements
 - street billboards
 - TV
 - exhibitions, fairs
- **Trade unions**
- **Export of capital from Hungary**
 - special licensing procedure - mainly for promoting exports
 - new foreign exchange code under elaboration
- **Legal environment**
 - quickly changing
 - difficulties in enforcement
 - slow legal proceedings
- **Corruption**
 - It exists inevitably in an economy still dominated by the state.
- **Criminality**
 - growing
 - boom of security services
 - insurance costs growing, but still reasonable

