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COUNTRY REPORT HUNGARY

JANUARY 2022

Contents

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Division Industry, Growth, Infrastructure & Regional Policy

SEV Hellenic Federation of Enterprises

T. +30 211 5006 121

E. ir@sev.org.gr

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1. General information: Hungary

Geography
- Area: Total: 93,030[7] km2
- Hungary (Hungarian: Magyarország [ˈmɒɟɒrorsaːg] (About this soundlisten) is a landlocked country in Central Europe. Spanning 93,030 square kilometres (35,920 sq mi) of the Carpathian Basin, it is bordered by Slovakia to the north, Ukraine to the northeast, Romania to the east and southeast, Serbia to the south, Croatia and Slovenia to the southwest and Austria to the west. Hungary has a population of 10 million, mostly ethnic Hungarians and a significant Romani minority. Hungarian, the official language, is the world's most widely spoken Uralic language and among the few non-Indo-European languages widely spoken in Europe. Budapest is the country's capital and largest city; other major urban areas include Debrecen, Szeged, Miskolc, Pécs and Győr.
- Capital City: Budapest

Population
- Total Population: 9,622,948 million January (2022)
- Population growth: - 0.27% of the total world population
- Median age: 43.3 years
- Density: 107 per Km2 (276 people per mi2)
- Urban Population: 71.7% of the population is urban (6,921,767 people in 2020)
- Population of main cities: Budapest (1,741,041), Debrecen (204,124), Miskolc (172,637), Szeged (164,883), Pecs (156,649)

Ethnic Origins: 98.3% Hungarians, 3.2% Romani, 1.8% Germans, 1% not declared

Religion: 54.3% Christianity, 39.0% Catholicism, 11.8% Protestantism, 3.5% Other Christian, 18.2% No religion, 0.3% Others, 27.2% No answer

Language
- Official Language: Hungarian
- Business Language(s): English

Government
- Type: Unitary parliamentary republic
- President: Volodymyr Zelensky
- President: János Áder
- Prime Minister: Viktor Orbán

Currency: National Currency: Forint (HUF)

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 2020 was $ 155 B. Hungary boasts a strategic location in Europe, easy access to EU markets, a highly skilled and educated workforce, 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. 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.

Hungary Key View

Over the coming years, economic growth rates in Hungary will not be as high as in 2017-2019 but remain comfortably higher than in more developed EU peers. Emerging from a protracted period of private deleveraging, the economy will be boosted by stronger consumer demand. However, a large public debt load and a precarious operational and political risk backdrop will weigh on Hungary's growth potential relative to some emerging EU peers.

When activity returns to normal, a major headwind facing Hungary's economy is its tight labour market, severe labour shortages and worsening demographic profile, which poses a risk to the country's foreign direct investment and export-orientated growth model. Strong real wage growth will continue to push up unit labour costs, hurting external competitiveness and making Hungary's position as a regional manufacturing hub increasingly fragile.

The Hungarian National Bank will take a mixed policy stance, hiking interest rates to anchor inflation expectations but continuing to run its bond purchase (quantitative easing) programme to keep yields low, ensuring low borrowing costs for the government.

The structure of Hungary's public debt burden has become less risky in recent years given a falling share of foreign exchange debt but remains high by emerging market standards and has risen sharply during the Covid-19 pandemic. This will limit the government's fiscal flexibility in any future downturn, particularly in light of pro-cyclical fiscal stimulus in recent years.

With the power to rule by decree indefinitely, Prime Minister Viktor Orbán and the ruling Fidesz party will maintain a comfortable grip on power over the coming years, as concerns of the erosion of democratic values are widely raised. It is expected Fidesz to win a fourth consecutive term in the April 2022 election. Risks of domestic political instability remain low as public opinion remains favourable to Orbán.

However, his increasing intervention in the private sector, media and judicial system will continue to deter foreign investors and attract the ire of the EU. Hungary's fractious relations with the EU remains a risk, with Article 7 procedures triggered and rule of law conditionality tied to structural fund disbursement (even if the rules were comparatively diluted) (Fitch solutions).

Table 1: Hungary Country Profile (World Development Indicators Database, The World Bank, 16.12. 2021)

INDICATOR	1990	2000	2010	2020
Population, total (millions)	10.37	10.21	10.00	9.75
Population growth (annual %)	-1.0	-0.3	-0.2	-0.2
Surface area (sq. km) (thousands)	93.0	93.0	93.0	93.0
Population density (people per sq. km of land area)	115.4	113.9	110.5	106.8
Poverty headcount ratio at national poverty lines (% of population)	..	..	..	12.3
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)	..	..	0.1	0.2
GNI, Atlas method (current US$) (billions)	37.90	47.14	132.66	154.93
GNI per capita, Atlas method (current US$)	3,66	4,62	13,27	15,89
GNI, PPP (current international $) (billions)	84.88	114.05	207.44	315.50
GNI per capita, PPP (current international $)	8,19	11,17	20,74	32,36
PEOPLE				
Income share held by lowest 20%	..	..	8.2	8.2
Life expectancy at birth, total (years)	69	71	74	76
Fertility rate, total (births per woman)	1.9	1.3	1.3	1.5
Adolescent fertility rate (births per 1,000 women ages 15-19)	40	23	20	25
Contraceptive prevalence, any methods (% of women ages 15-49)	81	..	62	..
Births attended by skilled health staff (% of total)	99	100	99	100
Mortality rate, under-5 (per 1,000 live births)	17	10	6	4
Prevalence of underweight, weight for age (% of children under 5)	..	..	..	..
Immunization, measles (% of children ages 12-23 months)	99	99	99	99
Primary completion rate, total (% of relevant age group)	82	96	97	96

School enrollment, primary (% gross)	85.2	101.1	100.9	95.5
School enrollment, secondary (% gross)	87	96	97	80
School enrollment, primary and secondary (gross), gender parity index (GPI)	1	1	1	1
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..
ENVIRONMENT				
Forest area (sq. km) (thousands)	18.1	19.2	20.5	20.5
Terrestrial and marine protected areas (% of total territorial area)	..	..	..	22.6
Annual freshwater withdrawals, total (% of internal resources)	119.0	96.0	84.2	75.0
Urban population growth (annual %)	-1.0	-0.5	0.4	0.2
Energy use (kg of oil equivalent per capita)	2,774	2,448	2,569	..
CO2 emissions (metric tons per capita)	6.50	5.35	4.79	4.75
Electric power consumption (kWh per capita)	3,427	3,309	3,876	..
ECONOMY				
GDP (current US$) (billions)	34.75	47.22	132.23	155.81
GDP growth (annual %)	-3.1	4.5	1.1	-4.7
Inflation, GDP deflator (annual %)	21.5	9.6	2.5	5.9
Agriculture, forestry, and fishing, value added (% of GDP)	..	5	3	3
Industry (including construction), value added (% of GDP)	..	27	25	25
Exports of goods and services (% of GDP)	29	67	81	79
Imports of goods and services (% of GDP)	30	71	76	78
Gross capital formation (% of GDP)	21	28	21	27
Revenue, excluding grants (% of GDP)	47.1	38.0	38.0	37.6
Net lending (+) / net borrowing (-) (% of GDP)	-4.5	-2.8	-3.6	-2.0
STATES & MARKETS				
Time required to start a business (days)	..	54	5	7
Domestic credit provided by financial sector (% of GDP)	..	..	..	..
Tax revenue (% of GDP)	25.5	22.4	22.6	22.5

Military expenditure (% of GDP)	2.6	1.5	1.0	1.6
Mobile cellular subscriptions (per 100 people)	0.0	30.1	121.0	107.0
Individuals using the Internet (% of population)	0.0	7.0	65.0	84.8
High-technology exports (% of manufactured exports)	..	..	26	17
Statistical Capacity score (Overall average)	..	..	87	..
GLOBAL LINKS				
Merchandise trade (% of GDP)	62	128	139	151
Net barter terms of trade index (2000 = 100)	..	100	97	104
External debt stocks, total (DOD, current US$) (millions)	..	..	..	..
Total debt service (% of exports of goods, services and primary income)	..	..	..	..
Net migration (thousands)	100	62	30	30
Personal remittances, received (current US$) (millions)	..	363	1,85	3,65
Foreign direct investment, net inflows (BoP, current US$) (millions)	554	2,748	-20,77	92,165
Net official development assistance received (current US$) (millions)	62	128	139	151

2. Economy

2.1. Economic and Political Overview

Contrasting with the trends observed in recent years, Hungary's GDP contracted sharply following the outbreak of the COVID-19 pandemic, as the backbone of growth - rising household income and exports - was severely impacted. Nevertheless, the economy was dynamic in 2021 despite headwinds from global supply chain disruptions, with an estimated growth of 7.6% (IMF). Underpinned by continuing fiscal stimulus measures and household consumption, economic growth is set to remain strong at 5.1% in 2022, before moderating to 3.8% in 2023 (IMF forecast).

Public finances have also been affected by the pandemic and the measures taken to contain its economic effects – including a one-time income tax refund to families with children, a subsidised loan programme for SMEs, an income tax cut for workers under age 25, the re-introduction of the 13th monthly pension and administrative wage increases – with an estimated budget deficit of 6.9% in 2021. As most measures fade out, the deficit is expected to decrease to 5.3% this year and 3.2% in 2023. Conversely, the debt-to-GDP ratio should resume its downward trend over the forecast period after reaching 76.6% in 2021. Public investment in 2022 will be partly financed by rising EU funds, which are also expected to provide a boost to investment.

Rising commodity prices and wage pressures contribute to persistently high inflation: regulated prices for residential energy contributed to shield households from commodity price increases; however, companies are expected to pass their higher energy and wage costs on to consumers, fuelling non-energy inflation. Overall, the rate was estimated at 4.5% in 2021 by the IMF and it is forecast at 3.6% in 2022 and 3.3% in 2023.

Employment reached its pre-pandemic level in the summer of 2021 and job creation is set to continue as the economy grows. The rate was estimated at 4.1% in 2021 (from a pre-COVID level of 3.3%); as the IMF expects unemployment to stabilize around 3.8% over the forecast period. Meanwhile, wage growth is set to remain robust amid emerging signs of labour shortages, following the approval of a 20% minimum wage hike and sizeable salary increases in the public sector.

Table 2: (Hungary- Economic Forecasts - 2021-2023 Outlook)

Main Indicators	2019	2020	2021 (e)	2022 (e)	2023 (e)
GDP (billions USD)	163.49	155.01e	180.96	198.99	216.44
GDP (Constant Prices, Annual % Change)	4.6	-5.0	7.6	5.1	3.8
GDP per Capita (USD)	16,729e	15,866	18,528	20,380	22,174
General Government Balance (in % of GDP)	-3.4	-7.3e	-6.9	-5.3	-3.2
General Government Gross Debt (in % of GDP)	65.5	80.4	76.6	75.6	73.1
Inflation Rate (%)	3.4	3.3e	4.5	3.6	3.3
Unemployment Rate (% of the Labour Force)	3.3	4.1	4.1	3.8	3.8
Current Account (billions USD)	-0.74	-0.15	1.09	1.75	3.27
Current Account (in % of GDP)	-0.5	-0.1	0.6	0.9	1.5

Source: IMF – World Economic Outlook Database, October 2021

2.3. SWOT Analysis

Strengths

- Generally stable parliamentary democracy
- EU membership
- Strong, competitive manufacturing base

Weaknesses

- Deteriorated investment climate, as a consequence of unconventional economic policy measures since 2010
- At times, difficult relations with the IMF and the EU
- High public debt and large total external debt burden
- Exchange rate vulnerability

- Low level of FX reserves – import cover below three months
- Vulnerable banking sector

2.4. Structure of the Economy

The agricultural sector, which used to be the dominant force in the country's economy for many years, now represents 3.4% of GDP and employs 4.7% of the working population (World Bank, latest data available). The country has arable land of 4,145k ha, around 47.4% of its territory. Cereals, fruits, maize, vegetables and wine are the main crops.

Industry accounts for 24.5% of the country's GDP and employs 32% of the working population. Hungarian industry is very open to foreign investment, with manufacturing almost consistently ranking top receiver of foreign direct investment.

The automotive and electronics sectors are the two main industrial sectors. The manufacturing sector alone accounts for 17.5% of the country's GDP. The electronics industry is one of the largest industrial sectors in Hungary, accounting for one-fifth of total manufacturing production.

The services sector contributes 56.6% of GDP and employs almost 63.2% of the labour force. Trade, tourism and finance account for the largest share of activity and employment within the tertiary sector. In recent years the added value produced by the ICT sector increased by more than one-fifth, to USD 20 billion, with the digital economy currently making up more than 20% of Hungary's overall gross value added.

Table 3: Breakdown of Economic Activity By Sector

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector (in % of Total Employment)	4.7	32.1	63.2
Value Added (in % of GDP)	3.5	25.2	55.8
Value Added (Annual % Change)	-6.8	-5.6	-4.8

Source: World Bank, Latest available data (2021)

2.5. Investment

Hungary maintains a high per capita stock of foreign direct investment (FDI) for Central and Eastern Europe standards. However, the 2009-2010 crisis has strongly affected FDI flows to the country and since then the volume of inward FDI flows has been lower. According to UNCTAD's World Investment Report 2021, FDI inflows decreased to USD 4.2 billion in 2020 compared to USD 3.9 billion in 2019, due to large disinvestments partly triggered by the Covid-19 pandemic. The stock of FDI was estimated at USD 101 billion in 2020. The main investors are Canada, the Cayman Islands, the Netherlands, Germany, Luxembourg, and Austria. FDI are mainly oriented towards financial services, manufacturing, trade, real estate, scientific and technical activities. According to the latest figures from OECD, in the

first semester of 2021, Hungary welcomed an investment inflow of USD 0.8 billion, a drastic contraction compared to the level recorded in the same period one year earlier (USD 3 billion).
The foreign investment screening mechanism, which was adopted in 2019, has been extended until the end of 2021, with the introduction of a second screening regime aimed at protecting Hungarian industries impacted by Covid-19. The first mechanism involves sectors of strategic importance, such as defence, dual-use products, cryptography, utilities, financial industry, electronic communication and public communication system. The second mechanism has a much wider scope and includes most manufacturing activities, as well as hospitality, energy and construction, among others.
Hungary has benefited in recent years from a change in direction of FDI from low-value textile and food-processing sectors to wholesale, retail trade and repair of vehicles. The country's central location and high-quality infrastructure have made it an attractive destination for FDIs. Furthermore, it has one of the lower corporate tax rates in Europe. However, the demographic decline of the country and the slow progress of the education system impede crucial structural transformation, with several foreign companies identifying shortages of qualified labour as the main obstacle to investment in Hungary. The country ranked 52nd out of 190 countries in the latest World Bank's Doing Business report.

Table 4: Foreign Direct Investment - UNCTAD, 2021

Foreign Direct Investment	2018	2019	2020
FDI Inward Flow (million USD)	6,410	3,884	4,169
FDI Stock (million USD)	92,001	93,258	100,993
Number of Greenfield Investments*	114	102	100
Value of Greenfield Investments (million USD)	4,894	7,515	3,683

Source: UNCTAD, Latest available data

Strong points for FDI in Hungary:

- Hungary is widely considered to be the gateway to Central and Southeast Europe, which makes it an attractive market for foreign investment.
- Hungary's labour force is highly educated and skilled with a particular emphasis on engineering, medicine and economics. As of 2020, there is the highest literacy rate in the region.
- The labour force is also cheap which allows the country to optimally integrate itself within the European production chain and to be considered as an efficient production workshop.
- Hungary continues to be one of the fastest growing EU economies. Its financial system is one of the most developed in the region.
- Well-established infrastructure and a clear legal and regulatory framework give Hungary a favourable environment for sustainable growth.

- Integration in the EU reinforces its political and economic stability, while the support of large international organisations has reduced the effects of the crisis.

Weaknesses for FDI in Hungary include:

- A large part of the population who has applied for foreign currency loans is struggling to repay them; this is due, among other things, to inflation following the crisis.
- Banks suffered heavy losses as a result of debt buyback and speculative investments.
- The currency (HUF) has undeniably lost its value in 2019-2020.
- Low investments in innovation and R&D, a high level of energy dependence and a sometimes fragile banking sector (public and private) put Hungary at risk of a glass ceiling and allow some observers to be alarmed by the capacity of the country to reinvent itself and thus to be able to leave its current economic role.
- Cronyism and corruption.
- Possibility of economic problems because of political conflict with the European Union.

Government Measures to Motivate or Restrict FDI:

Attracting foreign investment is a priority for the Hungarian Government. The Government established the Hungarian Investment Promotion Agency (HIPA) with the aim of providing professional help to foreign companies intending to invest in Hungary. The recovery from the financial crisis has been facilitated by the implementation by the state of measures to maintain the attractiveness of the country. The most notable are:

- Special loans and guarantee programmes to compensate for the difficulties of banks in granting loans.
- The improvement of the administrative situation and the reduction of formalities.
- The facilitated acquisition of building permits.
- As part of the National Development Plan 2014-2020, EUR 6 billion have been allocated for tourism, health, infrastructure and environmental protection programs.
- To promote investment, the corporate tax rate was lowered to 9%, and the social security contributions to 15.5%.
- The government provides special incentive package for investments over a certain value (generally above EUR 10 million), for investors who establish manufacturing facilities, logistics facilities, regional service centers, R&D facilities, bioenergy facilities, or those active in the tourism sector.

2.6. Taxation

Company Tax 9%

Tax Rate for Foreign Companies: Resident companies are taxed on worldwide income. Non-residents are subject to corporate income tax on their income from their Hungarian branch's business activities. A foreign company is deemed resident if its effective primary management site is in Hungary.

Capital Gains Taxation: In general, capital gains are part of the corporate tax base and are taxed at the standard rate of 9%. Capital gains arising from the sale of shares in Hungarian companies by non-resident companies are tax-exempt, with the exception of those of Hungarian property companies. Capital gains deriving from the disposal of investments may also be exempt provided that the taxpayer owns the Hungarian subsidiary (which cannot be a controlled foreign company) for at least a year and that the Hungarian authorities are kept informed of the acquisition of the investment within 75 days. Capital gains arising from the sale of an intellectual property benefit from a similar exemption, yet the reporting period of the acquisition is reduced to 60 days.

Main Allowable Deductions and Tax Credits: All expenses incurred in deriving taxable business income may generally be deducted. Grants made or assets that are transferred without consideration, as well as liabilities assumed or services provided free of charge, will qualify as business expenses if the taxpayer has a declaration from the recipient stating that the recipient's profit will not be negative without the income received. Grants provided to a foreign person or foreign resident company are not considered as business expenses. Employee benefits and the fringe benefit tax payable on them are tax-deductible.
Bad debts can be deductible if supported by legally valid third-party documents stating that the receivable cannot be collected. Furthermore, 20% of eligible bad debts are deductible from the corporate income tax base if the debt was not settled within 365 days from the due date.

R&D expenditure can be deducted from taxable income, as well as investments that comply with energy efficiency objectives. 300% of the direct costs for R&D are deductible from the tax base (capped at HUF 50 million) if the research activity is carried out jointly with a higher education institution, the Hungarian Academy of Sciences, or a research institute established by them.
Operating losses generated after the tax year 2015 can be carried forward for five years (up to 50% of the tax base calculated without losses carried forward), whereas the carryback of losses is not allowed. Taxes are usually deductible (not for the corporate income tax and the recoverable VAT).

Other Corporate Taxes: Local municipalities may levy a Local Business Tax (LBT) up to 2% on net sales revenues. Certain financial institutions such as payment service providers and intermediaries of currency exchange services are subject to a financial transactions tax of 0.3% (capped at HUF 6,000 per transaction, the tax base being the amount of the transaction exceeding HUF 20,000). Following the COVID-

19 crisis, Hungary has introduced a "special tax on credit institutions" at a rate of 0.19%, with the tax base being the part of the adjusted balance sheet total, calculated based on the annual financial statements prepared for the second financial year preceding the tax year, exceeding HUF 50 billion. A special tax on retailers has also been established, which applies also to foreign resident companies that do not have a permanent establishment in the country (for example online webshops). Progressive rates of 0.1%, 0.4% and 2.5% apply (with the entities with a tax base of less than HUF 500 million being exempt).

The owner of a building is subject to property tax liability annually on the first day of the calendar year; the same happens with the owner of land. Rates and tax base are calculated according to the type of property.

The transfer of real estate or shares in companies holding Hungarian real estate is subject to transfer tax payable by the purchaser at a rate of 4% of the value of the property up to HUF 1 billion, and 2% on the portion of the value exceeding HUF 1 billion (capped at HUF 200 million per property, exceptions apply).
The most common types of stamp duty are gift duty and duty on transfers of property for consideration. Stamp duty is levied on movable and immovable property and property rights if they were acquired in Hungary, unless an international agreement rules otherwise.

Social security contributions paid by the employer amount to 17% of the employee's gross salary, of which 15.5% as social tax and 1.5% as a vocational training contribution.

Mining companies must pay a mining royalty based on the quantity of the mineral resources extracted under authority permit. An environmental tax applies, calculated on the basis of the quantity of emitted materials (e.g. sulphur dioxide, nitrogen oxides, mercury, phosphorous, cyanides, etc.) multiplied by the respective fee rate.

Telecommunications service providers are subject to a specific tax (HUF 2 per minute for calls made and HUF 2 per message sent for private individuals; HUF 3 per minute for calls made and HUF 3 per message sent for other entities).

3. Consumer Behavior and Characteristics

3.1. Consumer Behavior and Characteristics

Consumer Profile: With a population of 9.8 million in 2020 Hungary has a fairly high population density of 107 inhabitants/km2. The birth rate is 8.8 per thousand and the fertility rate is 1.47 children per woman. The population is relatively ageing with a median age for women of 45.5 years and 41.5 years for men. The 65-plus age group represents 20.7%, the 55-64 age group 12.17%, 42.17% between 25-54 years and 24.9% between 0 and 24 (CIA, 2020). In Hungary, 83% of 25-64 years old have a high school or equivalent degree, higher than the OECD average of 74%. About 85% of men have such a degree, compared to 82% of women. In terms of employment, about 67% of 15-64 years old are in paid work, a level comparable to the OECD average employment rate. According to surveys, most young people work in law, business management and engineering.

Purchasing Power: Hungary's GDP per capita was USD 33,979 in 2019 (PPP - World Bank). Real wage growth has remained uninterrupted over the past years. The richest areas are heavily concentrated around the capital and the Austrian border. The per capita purchasing power of the inhabitants of Budapest is 123.3% of the Hungarian average, while that of the population of north-eastern Hungary is only 77.4% - in a study carried out by Gfk market research. The average purchasing power in Hungary is 44.5% of the EU average. The Gini index, which measures inequality in countries, rose to 30.6 in 2017, according to the latest available data from the World Bank. According to the OECD, the average per capita net adjusted disposable income of households is USD 16,821, per year, less than the OECD average of USD 33,604. With regards to the 2019 gender equality index, Hungary scored 51.9 out of 100, about 15.5 points below the EU-28 average. Hungary is ranked 27th out of the 28 member states. Hungary's scores are lower than the average of the 28 EU member states in all areas.

Consumer Behaviour: With the increase in the urban population, Hungarian consumers are expressing a growing interest in high quality convenience foods. This initially stimulated a demand for fast and processed food products, but awareness of health issues also created an interest in health and organic foods. The number of single-person households is increasing, as is the ageing population, which in turn should stimulate demand for non-essential products and smaller portions.
According to the Digital 2020 report, Hungary is a social media usage penetration rate of 62% in 2020, with 94% of these users accessing via mobile phones. The share of total advertising audience on Facebook, Instagram and Messenger is higher for users between 25-34 years old, followed by those between 35-44. Furthermore, Hungarian consumers are tending to increasingly favour online shopping. This sector had a turnover of EUR 2.2 billion in 2019, a 17% increase compared to the previous year.
According to a study by eNet, ICT, clothing & sportswear, and consumer electronics are the product categories with the largest online traffic in the country, while the highest shopping cart value can be found in the construction and renovation category. As of 2020, nine out of ten Hungarians aged between 18 and 79 have already bought something online. Online shoppers in Hungary are not restricting their purchases to domestic online stores, and foreign online stores continue to attract an increasing number of visitors, as Hungarian consumers tend to prefer foreign brands.
There is a significant contrast between consumers living in large cities (mainly Budapest) and rural areas, as the concentration of shopping malls and major brands in urban centres influences consumers.
New carpooling and collaborative platforms such as Blablacar, Uber and Autosztunk have recently been developed in Hungary and are often used by young people.

3.2. Internet and Ecommerce

Internet access: With a population of almost 10 million, Hungary has an internet penetration rate at 80.2%. In 2016, 71% of individuals in Hungary accessed the internet daily or more frequently, while only 1% accessed the internet less than once a week. Mobile phones have become the most widely used devices among Hungarians for going online: in 2016 the share of monthly active mobile internet users was 50.4%. Dividing internet usage into age groups, 94% of the people between 16-24 connect daily; the share goes to 97% for 25-34-year-olds and 86% for 35-44. The older generations also log on regularly with 45-54-year-olds and over 55s showing an 82% and 71% daily penetration rate, respectively. According to GfK Digital Connected Customer, the top three activities online include the use of social media, email services and news sites. The most popular web search engines by market share in Hungary are Google (96.7%), Bing (1.3%) and Yahoo (1.2%).

E-commerce market: E-commerce in Hungary was worth EUR 1.65 billion in 2017. In a 10 years span, the domestic e-commerce revenue in Hungary grew from about EUR 140 million to 1.65 billion in 2017 (E-Commerce Hungary Conference by eNet). The online share in retail is also increasing, with 6.2% of total retail sales that were made online in 2017. Some of the most popular and biggest online stores in Hungary are Tesco, Media Markt, eMAG, Vatera.hu, Mall, Tesco, Libri-Bookline and Ujjé.hu. About 92% of Hungarian businesses sell their products or services on their own website or mobile application, according to data from Eurostat. The rate is well over the 85% average for the EU as a whole.

E-commerce sales and customers: In the Hungarian e-commerce market, the product categories ICT, consumer electronics, clothing and sportswear, toys and gifts as well as home appliances are the ones that generate the most sales. As of 2017, there were 5.85 million e-commerce users in Hungary, with an additional 1.04 million users expected to be shopping online by 2022 (Statista). Data from Eurostat shows that 26% of Hungarians (aged 16 to 74) made online purchases in the previous three months (the EU28 average being 48%). Online shoppers in Hungary do not limit their purchases to domestic web stores and foreign online stores continue to attract an increasing number of visitors from Hungary. Since 2015, the number of Hungarian consumers buying abroad has risen from 1.5 million to 2.7 million. Shipping costs are the main concern when choosing a delivery or pickup method. Half of all online buyers consider the delivery time as important when deciding on the delivery method, while easy access to the pickup point is considered the least important. About 73% of online orders in Hungary was delivered by a courier service, with cash on delivery as the preferred payment method (47%). Money transfer and bank transfer were less used.

Social media: About 83% of Hungarian internet users between the ages of 16 and 74 use social networks, a rate among the highest in the European Union. As far as the age group between 16 and 24 years is concerned, the rate of social network usage was 97%, and a still high 55% for older users aged between 65 and 74 (data from Eurostat). Social media apps are used by the largest number of people, and they are also used the most frequently: three-quarter of the 4.7 million smartphone users use them at least daily, 8% of them hourly, 54% more than once a day and 13% once a day (eNet). In Hungary, Facebook is the most widely used social network, with 5.3 million users recorded in March 2016, according to a survey by MediaQ. It is followed by YouTube (3.2 million users), Google+ (1.7 million users), Instagram (942,000 users), Pinterest (837,000 users), LinkedIn (711,000 users) and Twitter (631,000 users). Facebook also leads the field of online messaging apps: 80% of Hungarian smartphone users use Messenger, of which 62% do it at least daily. Other popular messaging platforms are Viber (62%), Skype (39%) and WhatsApp (20%).

4. International Trade (doing business)

4.1. Trade Standards: 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.

Licensing Requirements for Professional Services: The recognition of skills and qualifications acquired by EU citizens in Member States, including the corresponding recognition procedures and charges are the responsibility of Member States. Similarly, recognition of skills and qualification earned in third countries is also a national responsibility.
If an individual with a foreign qualification was recognized in a Member State but wants to move to another Member State and has worked for at least three years in that Member State, which had recognized their qualifications, that individual can apply for professional recognition in another Member State under the rules that apply to professionals who have received their qualification from an EU country.
To prove the necessary experience to exercise a profession, a certificate issued by the Member State that first recognized one's qualifications may be needed. This applies to both EU citizens and non-EU citizens.
However, the European Commission takes the initiative to facilitate recognition procedures. For example, recognition of professional qualifications obtained in one Member State for the purposes of access and pursuit of regulated professions in another Member State is subject to Directive 2005/36. Recognition of qualifications for academic purposes in the higher education sector, including school-leaving certificates is subject to the Lisbon Recognition Convention. The ENIC-NARIC network provides advice on cross-border recognition of these qualifications.

Recognition in other cases is assessed by the receiving educational provider or employer. An understanding of the level, content, and quality is needed for them

to be able to recognize skills and qualifications. The Commission currently explores the possibilities on how to better support these recognition decisions.
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).

4.2. Trading Across Borders

Trading across Borders - Hungary

Indicator	Hungary	OECD high income	Best Regulatory Performance
Time to export: Border compliance (hours)	0	12.7	1 (19 Economies)
Cost to export: Border compliance (USD)	0	136.8	0 (19 Economies)
Time to export: Documentary compliance (hours)	1	2.3	1 (26 Economies)
Cost to export: Documentary compliance (USD)	0	33.4	0 (20 Economies)
Time to import: Border compliance (hours)	0	8.5	1 (25 Economies)
Cost to import: Border compliance (USD)	0	98.1	0 (28 Economies)
Time to import: Documentary compliance (hours)	1	3.4	1 (30 Economies)
Cost to import: Documentary compliance (USD)	0	23.5	0 (30 Economies)

Figure - Trading across Borders in Hungary - Score

Tables 5 & 6: Trading across borders, Hungary (Doing Business 2020)

Figure - Trading across Borders in Hungary and comparator economies - Ranking and Score

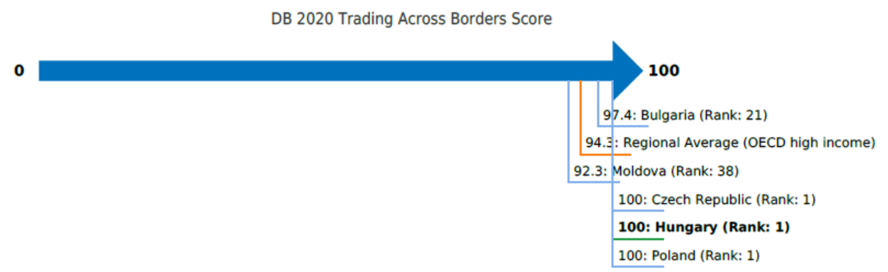

Table 7: Trading across borders, Hungary and Comparator Economies (Doing Business 2020)

Figure - Trading across Borders in Hungary - Time and Cost

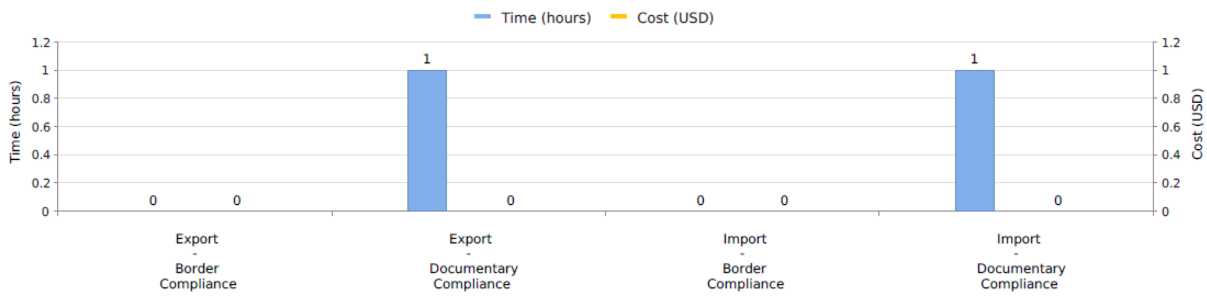

Table 8: Trading across borders, Hungary – Time and Cost (Doing Business 2020)

Details - Trading across Borders in Hungary - Trade Documents

Export	Import
CMR waybill	CMR waybill
Commercial invoice	Commercial invoice
EKAER number	EKAER number
Packing list	Packing list
Intrastat	Intrastat

Table 9: Trading across borders, Hungary – Trade Documents (Doing Business 2020)

4.3. 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.

Trade imports : 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. When products enter the European Union, they need to be declared to customs authorities according to their classification in the Combined Nomenclature. All products entering the European Union are classified under a tariff code that carries information on duty rates and other levies on imports and exports, any applicable protective measures (e.g. anti-dumping); external trade statistics, import and export formalities, and other non-tariff requirements.

The EU classification system consists of three integrated components. The first component is the Harmonized System, which is a nomenclature developed by the World Customs Organization comprising 5,000 commodity groups and organized in a hierarchical structure by sections, chapters (2 digits), headings (4 digits), and subheadings (6 digits). The second component is the Combined Nomenclature, which adds EU specific codes and information, serving as the European Union's eight-digit coding system (i.e. Harmonized System codes with further EU specific subdivisions). This serves as the European Union's common customs tariff and provides statistics for trade both inside the European Union and between the European Union and the rest of the world. The third component is the Integrated Tariff (Tarif Intégré de la Communauté or TARIC) which provides information on all trade policy and tariff measures applicable to specific goods in the European Union (e.g., temporary suspension of duties and antidumping duties). It is comprised of the eight-digit code of the Combined Nomenclature plus two additional digits (TARIC subheadings). Information on the Combined Nomenclature is updated every year and can be found on the European Commission's website.

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 Integrated Tariff is also available to help determine if a license is required for a particular product. The European Commission maintains a link to the EU Trade Helpdesk where information can be found using Harmonized Systems codes to determine, among other information, potential requirements, tariffs, the European Union's market's import rules, and taxes.

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: Labeling and Marking Requirements.
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:

- 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.
- 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.

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.

4.4. Imports - Exports

Hungary's economy is very open, with trade accounting for about 157.2% of GDP (World Bank, latest data available). Cars and the spare parts industry account for the highest share of exports and imports. Medicine and data processing machines are also among Hungary's main exports whereas telephones, electronic circuits and petroleum products are among the main imports.

The European Union is by far the largest economic partner of Hungary, with Germany being the main trading partner both for imports and exports (27.9% of exports, 24.6% of imports). Slovakia is the second top destination for Hungarian goods (5.4%), followed by Italy (5.3%), Romania (5.2%) and Austria (4.3%). China is the second supplier of goods to Hungary (7.9%), followed by Poland and Austria (5.8% each), and the Czech Republic (5.1% - data by Comtrade).

Hungary's trade balance, which was traditionally in deficit, started posting surpluses in the last decade owing in particular to the good health of the German economy. In 2020, the country's trade balance was estimated at 1.7% of GDP by the World Bank. In the same year, exports of goods stood at USD 120.3 billion, down by 2.8% y-o-y; with imports following a similar trend (-4.3% - USD 115.3 billion). Imports of services lost almost one-fifth of their value compared to pre-pandemic levels, totalling USD 17,6 billion; whereas exports - at USD 22.2 billion – contracted by 26%. According to provisional data from the Hungarian Statistical Office, the value of exports amounted to EUR 98.1 billion and that of imports to EUR 95.9 billion. Overall, the surplus on the balance of external trade in goods decreased to EUR 2.3 billion.

Table 9: Hungary's Foreign Trade Indicators

Foreign Trade Indicators	2016	2017	2018	2019	2020
Foreign Trade (in % of GDP)	164.3	165.2	163.4	161.8	157.2
Trade Balance (million USD)	4,391	1,896	-1,926	-3,379	-930
Trade Balance (Including Service) (million USD)	11,181	9,766	7,140	4,644	3,578
Imports of Goods and Services (Annual % Change)	3.4	8.5	7.0	8.2	-4.4
Exports of Goods and Services (Annual % Change)	3.8	6.5	5.0	5.8	-6.8
Imports of Goods and Services (in % of GDP)	77.8	79.2	79.5	79.5	77.5
Exports of Goods and Services (in % of GDP)	86.5	86.0	83.9	82.3	79.7

Source: World Bank; Latest available data (2021)

Table 10: Hungary's Foreign Trade Values

Foreign Trade Values	2015	2016	2017	2018	2019
Imports of Goods (million USD)	93,690	107,519	120,741	120,590	115,353
Exports of Goods (million USD)	101,980	113,806	124,705	123,796	120,311
Imports of Services (million USD)	16,307	18,303	20,716	21,510	17,614
Exports of Services (million USD)	23,079	26,628	29,819	30,028	22,238

Source: World Bank; Latest available data (2021)

Table 11: Hungary's Foreign Trade Forecasts

Foreign Trade Forecasts	2021	2022 (e)	2023 (e)	2024 (e)	2025 (e)
Volume of exports of goods and services (Annual % change)	10.5	6.8	5.1	5.3	5.3
Volume of imports of goods and services (Annual % change)	8.2	6.5	3.9	4.6	4.6

Source: IMF, World Economic Outlook; Latest available data (2021)

4.5. Greece – Hungary Trade Relations

Bilateral trade between Greece and Hungary in 2020 amounted to almost €773M, showing 5% increase compared to 2019.

Greek imports from Hungary amounted to almost €520M, meaning that there was no change compared to 2019. Greece's imports from Hungary mainly concern high-tech products, ie passenger cars, household electrical appliances, audiovisual devices and electronic devices.

Greek exports to Hungary amounted to €253M. This means 19% increase compared to 2019. The composition of Greek exports to Hungary includes aluminum products, pharmaceuticals, food products, telephones, plastics, fertilizers, insecticides, refrigeration appliances and others.

Table 13: Value of Greek Imports from Hungary 2020 (Eurostat, 2021)

IMPORTS - Value in Euro (€)	2019	2020
Food and Live Animals	80.034.575	69.252.110
Beverages and Tobacco	14.600.701	18.054.089
Crude Materials, Inedible, Except fuels	4.943.187	2.818.994
Mineral Fuels, Lubricants and Related Materials	20.400.699	39.934.715
Animal and Vegetable, Oils, Fats and Waxes	6.400.990	6.783.762
Chemical and Related Products, N.E.S.	81.650.354	89.633.225
Manufactured Goods Classified Chiefly by Material	43.610.732	39.768.346
Machinery and Transport Equipment	235.844.133	220.222.908
Miscellaneous Manufactured Articles	33.241.491	33.268.177
Commodities and Transactions not Classified Elsewhere in the SITC	9.089	69.252.110
Total	**520.735.951**	**519.736.326**

Table 14: Value of Greek Exports to Hungary 2020, (Eurostat, 2021)

EXPORTS - Value in Euro (€)	2019	2020
Food and Live Animals	41.598.638	48.422.427
Beverages and Tobacco	2.524.669	8.156.535
Crude Materials, Inedible, Except fuels	1.348.923	788.491
Mineral Fuels, Lubricants and Related Materials	4.530.106	4.424.719
Animal and Vegetable, Oils, Fats and Waxes	420.573	484.166
Chemical and Related Products, N.E.S.	40.373.137	45.900.037
Manufactured Goods Classified Chiefly by Material	41.982.649	47.000.590
Machinery and Transport Equipment	31.122.488	50.810.372
Miscellaneous Manufactured Articles	48.346.859	46.963.595
Commodities and Transactions not Classified Elsewhere in the SITC	204.871	128.706
Total	**212.452.913**	**253.079.638**

4.6. Leading Sectors for Exporters

A. Agriculture Sector: Hungary is a resilient, export-driven economy with lucrative opportunities in agriculture. Improvements in technological readiness and financial markets provide positive business incentives. Fiscal loosening, cuts in VATs, corporate income taxes and social security contributions intensify the market and trade, and help profitability, even in agriculture. Despite the COVID-19 crisis, growth in real wages has remained unbroken, resulting in increased purchasing power, solid demand in the food sector, and a stable foreign trade structure.

Hungary's agriculture contributes 4.1% to the gross value added. Food industry contribution stagnates at around 2%. Agriculture accounts for 4.3% of total investments in the economy and for 4.6% of the national employment rate. The food industry contributes 2.7% to investments and 3.2% to the total number of employees. The gross output of agriculture shows an upward trend at current basic prices. The share of plant products is 58%, that of live animals and animal products is 34%, and agricultural services and secondary activities amount to 8% of the gross output.

The country's agricultural trade balance is positive. Agricultural exports account for 9% of total exports from Hungary. The share of agricultural imports has stagnated at around 6% for years. The foreign trade structure of agricultural and food products is relatively constant. Most of the exported commodities in 2020 were grains and grain products (17%), meat and meat products (9%), vegetables and fruits (6%), animal feed (10%), beverages (8%), oilseeds (6%), and vegetable oils (6%). Imports included meat products (9%), dairy products (7%), fruits (5%), beverages (6%), confectionary products (7%), coffee, tea, cocoa and their products (5%), and animal feed (8%). More than 90% of agricultural imports come from EU member states. Hungary's most important suppliers are Germany (19%), Poland (14%), Slovakia (9%), Austria (8%), the Netherlands (7%), Italy (6%), the Czech Republic (5%), and Romania (5%). Remaining non-EU imports mostly originate in Serbia, Ukraine, Turkey, China, and the United States.

B. Medical Technologies: The Hungarian medical technology sector employs 13,000 people directly and including suppliers the total number of employees in the sector is approximately 30,000. The Hungarian medical technology industry is a relatively small but concentrated sector with 980 manufacturers comprising 4.9% of Hungarian exports. 85% of exports go to EU countries. The country has a solid base for manufacturing a range of medical devices, however, given the small market it is challenging for domestic production to compete with Western quality and innovations. The Hungarian MedTech sector includes strong academic background, cutting edge research and development in university spinoffs with research areas in medical imaging, electric and biosensor devices, as well as lab diagnostics.

Annual local production was valued at USD 1 Billion in 2019 and consists mainly of electro-medical equipment, blood pressure equipment, lab kits, surgical and dental supplies, apnea alarms, incubators, infusion pumps, mechanical medical supplies, maternity products, and specialized x-ray and IVD equipment. Local production and imports generally complement each other.

C. Safety and Security: The domestic market is dominated by imported equipment, especially in the high-tech end of security and technology solutions used by Hungarian military and 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 security (alarm systems) is one of the best organized segments within the industry.

Foreign companies are active in the supply of security equipment. Perimeter security systems, video-surveillance, screening and image analyzation equipment, access control systems and fire protection systems are frequently imported French, German, Italian, American, Israeli, Japanese, Chinese and Taiwanese companies.

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

To protect the European citizens, the EU regulates the use of data provided by Europeans for all companies serving the European Union and/or processing the personal data of EU citizens.

D. Information and Communication Technology: There is a significant government focus on the ICT sector, still, the digital transformation is progressing at a slower pace than necessary. The ICT sector produced gross value added (GVA) is estimated to amount to USD 20 Billion (HUF 6,000 billion) in 2020, which means that the digital economy makes up at least 20% of Hungary’s overall GVA. With the in-house digital developments of non-ICT companies (e.g., car manufacturers or financial service providers) included, the digital economy accounts for at least 25% of the total GDP. The mid-term outlook is positive as the pandemic accelerated the momentum for digital transformation and cloud adoption in the private and public sector. There could also be significant opportunities derived from the EU recovery investment strategy, which has a major digital element.

Software development in Hungary contributes significantly to the country’s economy, representing about 6% of GDP. Hungary also has a large share of outsourcing within the region, with 80,100 specialists employed in the IT sector. IT-friendly policies such as financial support for R&D have helped the country attract several multinational companies such as Siemens, Microsoft, Deloitte, Ericsson, Nokia and TATA to establish R&D centers in the country. Sectors of relative weakness, including transportation, banking and healthcare represent opportunities in terms of future IT-related growth. Hungarian IT spending is expected to grow at 2% through 2022, driven mainly by an increase in public sector spending, which reflects three major drivers:

1) Digital transformation: investment in future technologies, including Internet of Things in manufacturing, retail, utilities, agriculture, logistics and AI, particularly in customer service and customer-facing deployment.

2) GDPR-related backlog: regulatory compliance (mainly GDPR) has been a key driver in the Hungarian IT services market during 2018. Continued investment in systems and processes still required to catch up with best practice.

3) Public-sector investment to increase efficiency and reduce overheads: the public sector in Hungary spent more than USD 167 Million (HUF 50 billion) on IT services in 2018, 21% of the whole information service market, driven by EU funding through to 2021 (although this is expected to be extended through 2026, when the next five-year EU budget is agreed).

The hardware segment is forecast to be broadly flat through 2023, with systems integration growing at a rate of 2% and software at close to 7%. Bearing these differing growth rates in mind, the Hungarian market offers opportunities in high-demand new technologies including digitalization, deep learning, artificial intelligence, Industry 4.0, cyber security and fintech.

Systems integration (SI) and application development represent approximately a quarter of the market, while the public, finance, telecommunications, and manufacturing sectors make up around two-thirds of market revenues. The fastest growing segment of the system integration market is outsourced services, forecasted to grow at a CAGR of 3.5% (2018–23) creating market opportunities for global IT integration companies, most of which are not yet present in the market, such as Accenture, Cap Gemini, Citrix, etc.

The mobile telecommunications market has 12.775 million subscriptions. The number of mobile subscriptions grew by 1.1% over the year with a gain in post-paid subscriptions having more than offset the loss in prepaid subscriptions. Operators are trying to maximize their revenues from selling premium services and high-speed data packages to existing clients and business customers.

The 5G strategy based on the proposals of the 5G Coalition (5GC), has yet to be adopted by the Hungarian government. It aims to make Hungary a major European center for 5G development. It should also take the leading role in the region in testing 5G applications. The multi-band award process took place as an auction in March 2020. The mobile sector's three major players – Telenor, Vodafone (UK) and Magyar Telekom (the successor of the former monopoly telecommunications firm, now majority owned by Deutsche Telekom) – won licenses. It involved 700 MHz, 3400-3800 MHz bands and remaining spectrum in the 2100 MHz and 2600 MHz bands. In terms of market share, by the end of 2019 Magyar Telekom had a 44.8% market share, Telenor 27.2%, and Vodafone 26.7%. Other operators include DIGI – which is owned by RCS&RDS (Romania) but agreed to sell its operations to local firm 4iG in March 2021 – and MVM Net, a state-owned company that focuses on the public sector and which has recently been transferred to digital broadcaster Antenna Hungária. DIGI was barred from the 5G auction. Immediately after winning the license, Magyar Telecom launched commercial 5G services together with Ericsson. Vodafone launched services in October 2019, in partnership with Huawei. 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 testing.

E. Consumer Electronics and eCommerce: Hungary's e-commerce sector is growing rapidly, and Hungary is the 53rd largest market for eCommerce with a revenue of over USD 2 Billion in 2020. Hungary's domestic online retail turnover may increase 2.2 times by 2024. Even though the country is one of the fastest growing e-commerce markets in the region, it is still behind the EU average of 63%, as well as regional peers such as Poland and the Czech Republic. According to Eurostat data, around 49% of Hungarians shopped online in 2019, a good increase compared to 29% in 2018. Hungary's shifting demographic might cause negative long-term consequences for online retail. The 20-39-year-old age group is forecast to be the fastest shrinking in the country. The creation of new access channels to grocery and non-food products could become a driving force in the future.
Main online retailers in Hungary include EMAG, Alza, Tesco, Media Markt, H&M, Stradivarius, Árukereső, Jófogás, and Vatera. Local web shops generated USD 1.64 billion in turnover, more than 5% of the total national retail trade volume. The most popular product categories were information technology and consumer electronics, fashion, food & personal care, toys/gifts & DIY, 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.

5. Accessing to the local market

Doing business in Hungary: One of the competitive advantages Hungary has compared to other countries in the region is the government's strong commitment to streamlining business processes and to increasing the competitiveness of both SMEs and large enterprises in Hungary through a wide range of available incentives.
Both refundable and non-refundable incentives are available to investors coming to or expanding in Hungary. The main types of incentives related to investments are cash subsidies (either from the Hungarian Government or from EU Funds), tax incentives, low-interest loans, or land available for free or at reduced prices. The regulations on incentive opportunities are in accordance with EU rules.
Hungary is situated in the heart of Europe, which makes the country optimal for manufacturing, services and logistics. Hungary is the ideal base for investors who are planning cross-border business developments. Foreign capital is, in a large part, attracted by the highly skilled and highly educated labour force, particularly in the engineering, IT, pharmaceutical, economics, mathematics, physics and professional services sectors. Around two-thirds of the workforce in Hungary has completed a secondary, technical or vocational education.
The average wages in Hungary are 60% less than the average of the EU 27, which makes the Hungarian workforce highly competitive. High English proficiency (90% of students speak English) and high number of working hours/year make Hungarians a highly efficient workforce.

Starting Up in Hungary: The primary act of law in Hungarian company law is Act 4 of 2006 on Business Associations (Companies Act). The main types of business associations under the Companies Act are identical to those regulated in EU countries. The procedures on founding, implementing changes in data and winding up of Hungarian associations are primarily governed by Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings (Company Procedures Act).
Under the Companies Act, business associations may be founded by non-resident and resident natural persons, legal persons and business associations without legal personality. Hungarian laws do not provide an exhaustive list of legal persons but, on the basis of the Civil Code, state, municipal, business, social and other organisations may have legal personalities. International treaties may contain regulations in derogation from these provisions in respect of the participation of non-residents in Hungarian business associations.

Franchising: Franchising in Hungary started in the 1990s, after the collapse of the old political regime in 1989, by the opening of well-known 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, when 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 KFC, Burger King, Subway, Starbucks (AmRest), Curves, Hertz, Avis, and Budget. Most recently US fashion chain The Gap entered the Hungarian market, having signed a franchise agreement with Ganeta Pannónia, the new partner of the chain. The first Gap shop is a 350m2 store in the Etele Plaza shopping mall in Budapest's 11th District, opened in the fall of 2021. Ganeta plans to launch an online Gap shop by the end 2021.

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. Some franchisors have left 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.

Distribution & Sale Channels: 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 2020, 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 2020, the domestic value of debit card usage grew by 23% compared to 2019. 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 was implemented in January 2021, all shops possessing online cash registers 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.

6. Business Culture and Communication

The Fundamental Principles of Business Culture: Hungarian business culture is quite formal, courteous and relationship oriented.
Hungarian organisations often follow a hierarchical structure. It is therefore recommended to be respectful and formal towards executives and managers, who will make all major decisions. Employees are not always expected to give their opinions in the decision-making process.

Personal relationships are an essential part of doing business in Hungary, as are contacts and networks. Business relationships are usually built on trust and familiarity, so they often involve socialising outside the workplace. Business lunches and dinners are common for getting to know people, but formal negotiations are not normally held over meals.

First contact: First contact is generally established by telephone and followed up by an email. Appointments must be made two months ahead of time, and it is necessary to confirm them in writing. Being introduced by someone known and trusted can facilitate the relations. For that reason, having a local representative to arrange introductions and to guide you through Hungarian business protocol is advised. It is often difficult to schedule meetings on Friday afternoon, from mid July to mid August and from mid December to mid January.

Time Management: Punctuality is extremely important, so it's advised to arrive about ten minutes before the scheduled meeting time. Given that cities usually have heavy traffic, you should leave early for a meeting. Even though business meetings are expected to start on time, that is not the case when it comes to public events, which typically start with a delay of 5 to 10 minutes. It is not common to stick to a strict meeting schedule or agenda, and spontaneity is often a driving force.

Greetings and Titles: In a business context, greetings usually consist of a firm handshake. Direct eye contact should be expected. It is advised to state your name and present your business card. It is recommended to address your counterparts by their titles and family names unless you are invited to do otherwise.

Gift Policy: In the context of business relationships, gifts are neither necessary nor expected. Small presents, like a diary or pen engraved with the company logo, or a souvenir representing the country you are coming from are acceptable but not necessary. Around Christmas, Hungarian businessmen may exchange symbolic gifts, such as a bottle of wine or similar. Outside of the office, if invited to a business partner’s home for a meal, it is normal to present the host with flowers, chocolates or a bottle of liquor or wine.

Dress Code: The dress code varies depending on the sector and the level of the meeting, but it is generally formal and conservative. Men usually wear a suit and tie, whereas women wear a suit or elegant dress, complemented with good quality accessories.

Business Cards: Business cards are usually exchanged at the beginning of a meeting without formal ritual. It is recommended to have one side of the card translated into Hungarian, and one side in English. Hungarian style cards usually include all necessary business information, personal details, and occasionally have advanced university degree information as well.

Meetings Management: Hungarians usually begin business meetings with small talk. Meetings are considered necessary to exchange ideas, but agreements are rarely reached on the spot.
Projects should be well researched and backed by convincing arguments, and presentations should be thorough and accurate. Confrontational behaviour or high-pressure sales tactics don't often work when negotiating and should be avoided. Knowledge, background information and hard facts are appreciated. Decisions are often not made on the spot. Talks can last for extended periods of time, and only when management has had time to reflect and discuss can agreements be reached. Hungarians tend to be flexible and well-prepared business negotiators. As their main goal is to obtain a final agreement, they don't mind compromising.
Hungarian communication tends to be indirect. However, debate is regarded as healthy. Also, it's advised to avoid exaggeration. Stories, anecdotes, and jokes are often used to prove points; and debates tend to be prolonged. Promises made during meetings are usually respected, but agreements are only binding when written, so it's advised not to rely on verbal agreements.
Business meals usually take place in restaurants and being invited to a business contact's home is rare - and is only to be expected if the business relationship turns into friendship. Business lunches are common, but dinners are the preferred meal for meetings. Both business lunches and dinners tend to be formal, unless stated otherwise. When a business dinner is more for entertaining than discussing business, it will not be as formal and the Hungarian counterpart is expected to inform about it beforehand.

Opening Hours and Days: Normal business hours are from 8:00 a.m. to 5:00 p.m. Businesses and government offices often close early on Friday afternoons. Shops are open 7 days a week from 9/10:00 a.m. until 7/9:00 p.m. A few post office branches remain open on Saturdays.

7. Useful contacts

Embassy in Budapest
Address: Szegfu u.3, VI Budapest, 1063
Tel: (00361) 4132621, 4132611
Fax: 3421934
Emergency Tel: 0036303417498
E-mail: gremb.bud@mfa.gr , greekemb@t-online.hu
Website: www.mfa.gr/budapest
Working Hours (Local Time): Monday – Friday 09.00-16.00
Head of Mission: Ambassador, Efthymios Pantzopoulos

Consular Office
Address: Szegfu u.3, VI Budapest, 1063
Tel: (00361) 4132621, 4132611
Fax: 3421934
E-mail: grem.bud@mfa.gr
Open to public: Monday to Friday 10.00-14.00
Head: Mrs. Bespari Eleni

Commercial Section
Address: Szegfu u.3, VI Budapest, 1063
Tel: (00361) 4132613 Fax : 3217403
E-mail: ecocom-budapest@mfa.gr greekcom@t-online.hu
Website: http://www.agora.mfa.gr/en/offices-of-economic-and-commercial-affairs
Head: Marinopoulos Doukas, First Counselor for Economic and Commercial Affairs

8. Sources

- European Commission
- Euromonitor International
- Fitch Solutions: BMI Research
- IMF
- OECD
- Societe Generale
- Statista
- The World Bank Group
- TradingEconomics
- UNCTAD
- StandardTrade
- Doingbusiness
- U.S. Department of Commerce, International Trade Administration
- World Economic Forum

Financial Institutions

- Eurobank: Export Gate