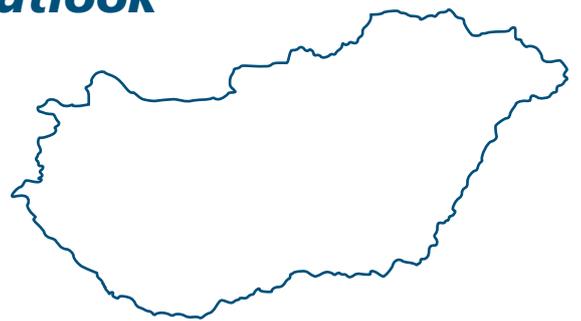


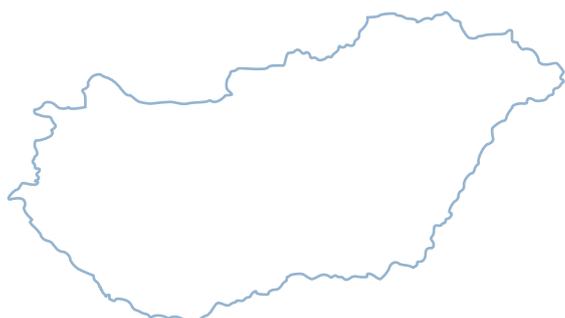


Country outlook
Hungary





Hungary



Form of Government: Parliamentary republic

Capital: Budapest

Official language: Hungarian

Population: 9 million inhabitants (2019)

Currency: Forint (HUF)

Exchange rate: 1 EUR = 337.67 HUF (31/01/2020)
1 USD = 304.70 HUF (31/01/2020)

GDP: \$170 billion (0.2% of world GDP)

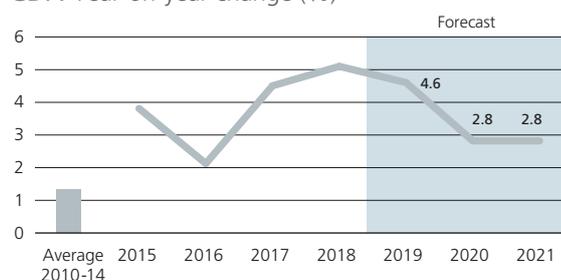
GDP per capita: \$17,463 (\$34,046 purchasing power parity)

Ease of doing business: 52nd in the world out of 190 according to the World Bank (Doing Business)

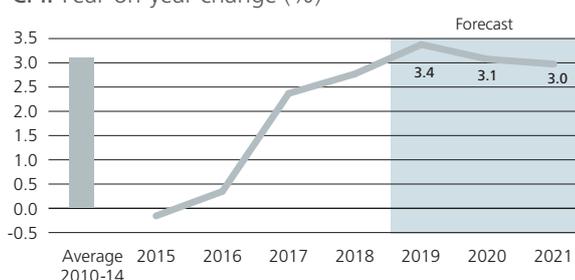
Religion: Catholic: 68%

Economic forecast

GDP. Year-on-year change (%)



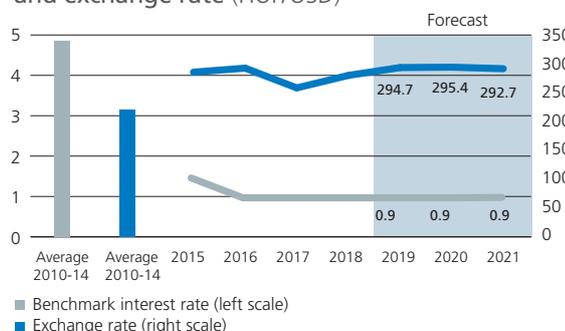
CPI. Year-on-year change (%)



- The growth of the Hungarian economy will lose momentum in 2020-2021, partly due to a decline in activity abroad. However, this slowdown will be partly mitigated by strong consumption (thanks to the high increase in wages) and private investment (which is benefiting from an increase in confidence, the recovery of the real estate sector and accommodative monetary policy).
- Headline inflation will fall in 2020-2021 due to the slower growth in prices of raw materials and it will remain within the Central Bank of Hungary's target band (3% +/-1 pp). However, core inflation will be somewhat higher due to continued strong growth in private consumption and wages.

Economic policy

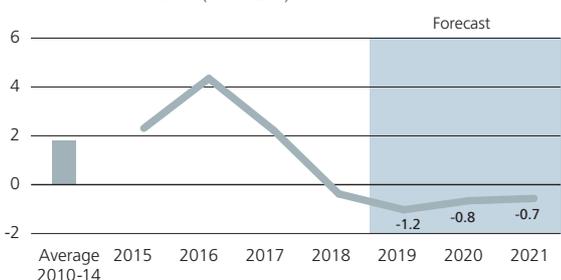
Benchmark interest rate (%) and exchange rate (HUF/USD)



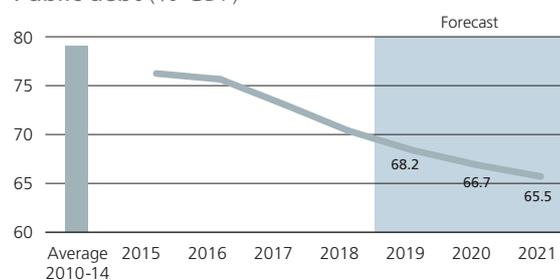
Fiscal balance (% GDP)



Current account (% GDP)



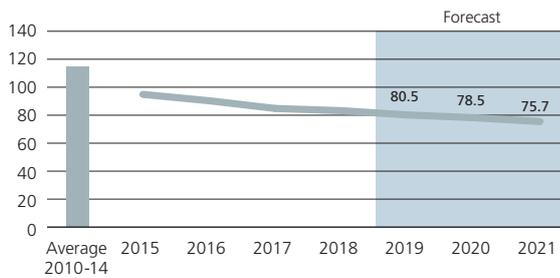
Public debt (% GDP)



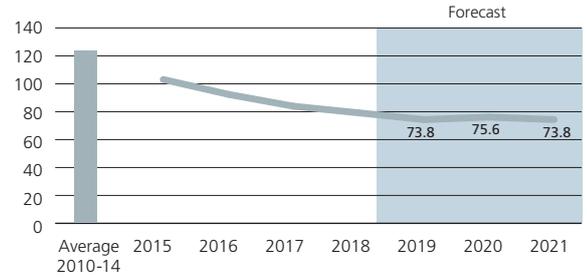
- Up until 2018, Hungary had had eight consecutive years of current account surpluses that had allowed it to reduce the external imbalances built up during the period prior to the financial crisis. Nevertheless, the external surplus has shrunk considerably in the last few years, due to the strong push from domestic demand and the continued decline in the country's level of competitiveness (a result of high wage growth and the shortage of skilled labour). We expect the current account balance to remain in deficit in 2020-2021.
- Although domestic conditions support a tightening of financial conditions, we do not expect the Central Bank of Hungary to continue raising interest rates, given the accommodative tone of the Federal Reserve and the ECB.
- In 2020, the fiscal deficit will continue to shrink due to steady rises in tax revenues (thanks to strong economic activity) and modest increases in public expenditure. In particular, the budgets include provisions for reducing the deficit to 1% of GDP, a historic low. However, the implementation of a new social benefits package to boost the birth rate (known as the demographic programme, with measures such as subsidies for purchasing a primary residence) will limit the deficit reduction. Furthermore, given that the Government's deficit forecast is based on somewhat optimistic outlooks for growth, it is possible that the deficit will end up slightly above the Government's target. In this context, high public debt will continue to be a vulnerability for the Hungarian economy.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



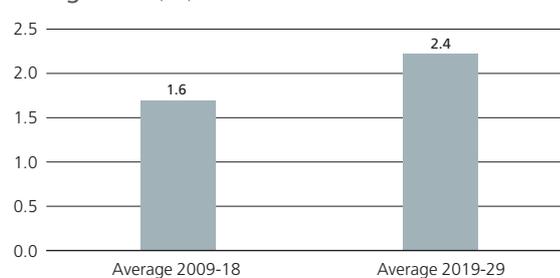
- Credit growth has been recovering in recent years, following a long period of contraction. Looking ahead to 2020-2021 we expect credit to continue apace, as high wage growth, government subsidies for families with children to buy homes, and the strong recovery of property prices will continue boosting credit demand for home purchases. Furthermore, investor confidence will continue to boost investment and credit demand from local companies. One notable factor is the high growth rates in property prices (7.8% in Q3 2019), which will also be given an additional boost from the so-called “demographic programme”.
- Over the last three years, the Hungarian Government has introduced measures to support the country’s financial sector (major reduction of the tax on bank assets, measures to help reduce the stock of non-performing loans, and a commitment to refrain from implementing measures that could negatively affect the sector’s profitability). In this context, the banking sector is favourably positioned to continue financing economic growth. In particular, capitalisation levels remain at around the EU average (14.4%), banks have healthy balance sheets and profitability is high (ROE stood at 18.2% in Q3 2019, compared to 5.6% in 2015). Additionally, the reduction in the non-performing loan ratio in recent years has been evident (5.2% in Q3 2019, compared to 15.9% in 2015). Nevertheless, the correlation between sovereign and bank risk is ever higher, given that banks’ holdings in domestic sovereign bonds have increased and currently stand at over 20% of total bank assets.

Political situation

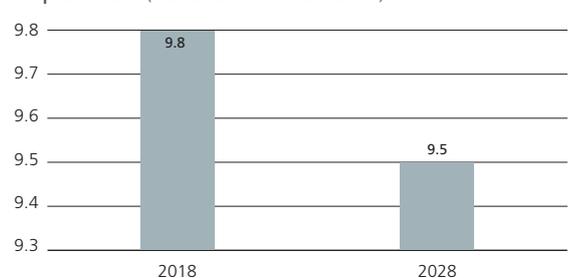
- Fidesz and its ally, the Christian Democratic KDNP, won the April 2018 general elections with a strong majority once again, partially thanks to the weakness of the opposition, which remains fragmented. Likewise, the coalition received 52.3% of the vote in the European elections in May 2019. We therefore expect the coalition led by Viktor Orbán to continue dominating the political scene at least until the end of this term (2022).
- The Government’s policies will continue to focus on maintaining a high rate of economic growth, continuing with a policy of popular subsidies (minimum wage increases, discounts on energy consumption bills, subsidies for families with children, etc.) and maintaining a level of deficit and public debt that avoids disagreements with the European Commission.
- Since Fidesz returned to power in 2010, the Government’s interventionist stance and some of its political practices (restriction of academic freedom in universities, refugee rights, greater intervention in the media, etc.) have generated criticisms and have led to conflicts with the EU and other international organisations, which accuse the country of moving backwards in terms of democratic freedoms. In fact, the European Parliament voted (in 2018) to initiate proceedings against Hungary (including disciplinary actions) for disrespecting fundamental EU values.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)



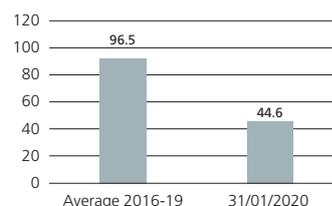
- Hungary’s medium and long-term growth will be below that of its regional counterparts, due to the economy’s low level of productivity, an unfavourable environment for doing business, and existing weaknesses in the labour market. Moreover, the negative population projections will weigh on growth.
- Hungary therefore needs to implement structural reforms to help boost its potential growth. Priorities include reducing regulatory uncertainty, improving skills and competencies and increasing the labour market participation of under-represented groups (women and workers over 55). It would also be desirable for both monetary and fiscal policy to take a more countercyclical stance in order to avoid the risk of the economy overheating.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	BBB	15/02/19	Stable
MOODY'S	Baa3	04/11/16	Stable
FitchRatings	BBB	22/02/19	Stable

■ Indicates that the country has an "investment grade".
 □ Indicates that the country does not have an "investment grade".

CDS* 5 years (basis points)

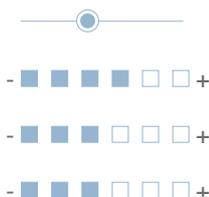


*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

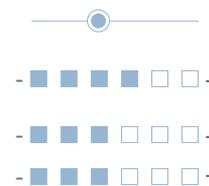
SHORT-TERM

- State intervention in the economy
- Lack of policy predictability
- Greater than expected slowdown in the euro area



LONG-TERM

- Failure to push for modernisation
- Decline and ageing of the population
- Level of public debt



Business environment

STRENGTHS

- Market size (in regional terms).
- Technological capacity (in regional terms).
- Innovation capacity (in regional terms).
- Geographical proximity with Germany and Austria.

WEAKNESSES

- Institutions (corruption, excessive bureaucracy and interventionism).
- Low labour force participation.
- Shortage of qualified staff/brain drain.

Main sectors

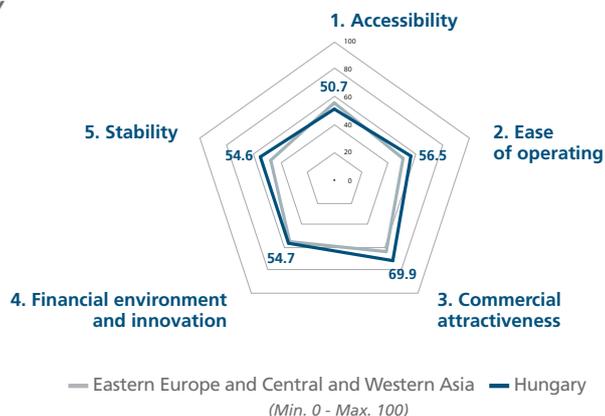
- Industry: machinery, transport equipment, electrical material, agricultural and food products and chemical products.

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POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

Top
 Similar tastes to Spain
 Distance, communications, and agreements with Spain
 Easiness of operating a business

Bottom
 Infrastructures
 Macroeconomic stability
 Innovation capability

Taxation

Hungary's taxation system is seen as complex in comparison with other European countries, due to the existence of both national and local taxes in the business environment. Companies with their tax domicile in Hungary are subject to corporate tax on earnings from activities carried out worldwide. The types of company subject to this tax are as follows: joint stock companies (Rt), limited liability companies (Kft), state corporations and the branches and subsidiaries of foreign firms. The tax on corporate earnings varies from 10% for earnings up to HUF 500 million (around EUR

1.6 million) and 19% for companies with over HUF 500 million in earnings. If these companies pay dividends to private individuals, they must pay an additional 16% tax on such dividends. There is also a local tax on companies that cannot exceed 2%. There is also simplified business tax (EVA in Hungarian) paid by companies with under HUF 30 million in earnings (around EUR 10,000) and set at 35% of these earnings. Value added tax in Hungary has three rates, the general rate being 27% and the lower rates 18% and 5%.

Investment

In Hungary, foreign direct investment for 2015 was 1.269 billion dollars. Hungary is the top receiver of foreign direct investment of all Central and Eastern European countries. Despite the reduction in this flow during the economic crisis, over the last

three years it has found a pathway back to growth again, and this is expected to continue as a result of the Hungarian government's announced macro-projects in infrastructure and nuclear power.

Establishment**LOCAL COMPANY**

The different types of companies that can be founded in Hungary are as follows: joint stock company (Részvénytársaság – Rt.), limited liability company (Korlátolt felelősségű társaság – Kft.), general partnership (Közkereseti társaság – Kkt.), limited partnership (Betéti társaság – Bt.) and cooperative (Egyesülés). A joint stock company (Rt.) could be compared with the German "AG" for companies, and is the legal form most strictly controlled by the administration. These can be both public (Nyrt.) and private (Zrt.). The Companies Act allows this form to have only one founder, with no maximum number, but there must be a board of directors made up of at least three members. The minimum capital to set up a company of

this type is HUF 5 million for the private form and HUF 20 million for the public form. Limited liability companies (Kft.) can be compared to the German "GmbH" and are used most by foreign investors. They will have a managing director elected by vote and a board of directors of at least three members but no more than 15. The minimum capital to set up this kind of company is HUF 3 million. In the case of partnerships (Kkt. and Bt.), there is no minimum capital to set them up or limit on the partners. Limited partnerships must have at least one general partner and at least one limited partner. All these forms of companies and businesses are governed by the Companies Act.

BRANCH

To be able to set up a branch in Hungary the country where the company is based needs to have a free trade agreement signed with Hungary (i.e. the European Union and the OECD). Once set up, this branch is free to carry

out any kind of commercial activity: manufacture, sale or provision of services. A branch cannot carry out any kind of activity until it has been registered with the Hungarian Company Registry.

REPRESENTATIVE OFFICE

Representative offices of foreign companies in Hungary are treated the same as branches. The country where the foreign firm wishing to set up an office of this type is based must have a free trade agreement with Hungary. Representative offices are only allowed to carry out a much more limited list of commercial

activities that are exclusively auxiliary or secondary, such as mediation and preparation of contracts, never direct activities of manufacture or sale. They must be entered in the Company Registry if they wish to start carrying out activities.

**Alliances
strategic****FREE TRADE ZONE**

Hungary does not currently have any free trade zones, although these are set out in different legal texts, there being two types: commercial and industrial. The government plans to create

zones of this kind, but as this has not been requested by businesses in the region, there are no dates at present.

Alliances strategic (continuation)

JOINT VENTURE

Although it is recommended to establish an association with local Hungarian companies to enter the market, as this can make bureaucratic procedures much easier and resolve language barriers, the formation of JV in this country has decreased considerably especially in companies from EU countries, as the free circulation of

goods and people established by the EU means it is not necessary to form a partnership with Hungarian companies. Hungary's Foreign Investment Act of 1988, which applies to joint ventures, is aimed at regulating and protecting foreign investment in this country and making it easier to repatriate any profits.

Customs conditions

FREE TRADE AGREEMENTS

The 28 EU Member States form part of the same territory for customs purposes. The very definition of a customs union validates the inexistence of tariff barriers between Member

States. The common customs tariff is applied for imported products. Once effective, goods can circulate freely throughout all countries in the EU.

FREE TRADE ZONE

There are no free trade zones in Hungary.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Hungary is one of the countries that grants tariff preferences by applying zero duty or reduced tariffs to beneficiary countries (less

developed countries). This is because of its membership to the EU.

Negotiations and protocol

BUSINESS CULTURE

When doing business with Hungarian firms, certain aspects must be taken into account to present a proper and formal image. In this country, the negotiating style is direct and the first business proposals are normally made at the initial meeting. If possible, the company's international experience should be highlighted

as Hungarian firms value the fact that a potential partner has business with other countries. Agents or representatives are often used in the initial positioning phases and should be chosen carefully as it is frowned upon to make subsequent changes.

Top fairs

- Dental World.
- AgroMash Expo.
- Home Design.
- Sirha.

Websites of interest

- Investing in Hungary: www.hipa.hu/
- Hungarian Tax and Customs Agency: <http://en.nav.gov.hu/>
- Development Bank: www.mfb.hu
- Hungarian Industrial Copyright Institute: www.sztnh.gov.hu/en

Payment and charging methods

MEANS OF COLLECTION

The main methods used are documentary credit and transfers. The latter is used when there is more trust between the parties.

MEANS OF PAYMENT

The most widely used means of payment at present is bank transfer thanks to the safety of the new private banks and their inclusion in the SWIFT system.

EXCHANGE RATE INSURANCE

Despite the safety of working with an EU Member State, it may be advisable to hedge commercial

transactions against large fluctuations in the exchange rate with regard to the euro.

CaixaBank in the country

CaixaBank is a shareholder of Erste Group. Erste Group is one of the main financial groups in Central and Eastern Europe. CaixaBank has signed an agreement with Erste Group to

provide a service to our client companies in the following countries in Central and Eastern Europe: Austria, Hungary, Czech Republic, Slovakia, Romania, Croatia and Serbia.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks

