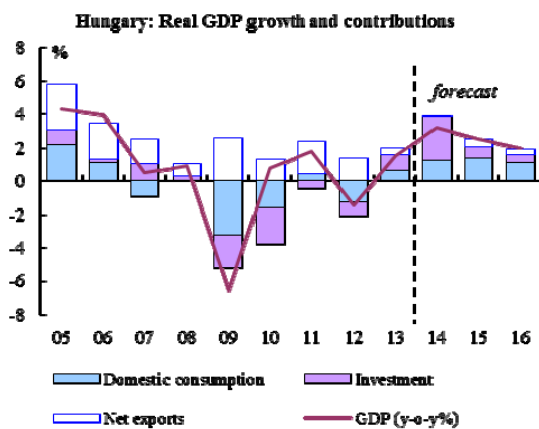


INVESTMENT IN HUNGARY

What is the situation in Hungary?



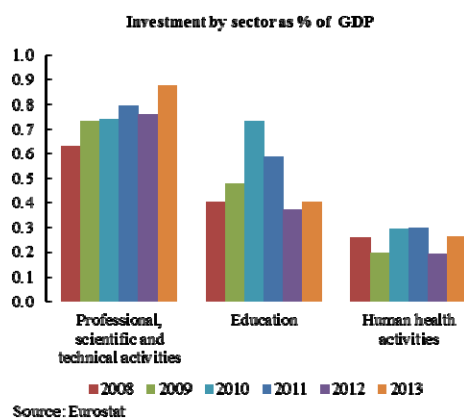
Investment in Hungary had been declining since the crisis. It started to grow again by 5.2% in 2013, compared to a decrease of 1.6% in the EU as a whole. This trend was fuelled by investment in non-housing construction and equipment which grew by 11.7% and 4.7% respectively in 2013, while housing continued to fall by a drastic 29.8%. In the first half of 2014, total investments grew by an outstanding 16.8% (y-o-y), mainly due to government investment financed from EU funds, although private investment increased as well. In 2015, investment growth is expected to slow down to 3.1%, contrary to an acceleration at EU level. This is because: i) the inflow from EU funds is forecast to peak in 2014, and will start to decrease as of 2015; ii) elections took place in 2014; and iii) the one-off effect of relatively large Foreign direct investment projects, mainly in the car industry, in 2013-2014.

What is the main challenge?



Funds available for new investments are limited as the net level of Foreign direct investment has declined considerably, partly due to an unpredictable business environment. The capacity of banks to lend is held back by a high sector-specific burden, such as from the bank levy and non-performing loans. Although Hungary is one of the biggest beneficiaries of EU funds, its capacity to absorb the funds effectively remains weak. In the new programming period such funding will reduce temporarily in 2015. Government investment has, to a large extent, been financed by EU funds. Regarding the private sector, the biggest challenge is a limited integration of SMEs into the production chain as a supplier for bigger, international firms.

Opportunities for investment



Areas that would benefit from increased investment are linked to physical infrastructure, such as railways, public transport and IT (broadband network in particular), as well as to sub-sectors that contribute to the maintenance and improvement of human capital including education, R&D and healthcare. Investment should be foreseen to support projects on the three Trans-European Transport Networks core corridors, in particular railways and Danube navigation (for example, to invest in fairway – i.e. a navigable deep-water channel - maintenance to improve navigability conditions). Helping to improve the capacity of domestic SMEs to carry out R&D, in the carmaking sector for example, would pay back in terms of job creation and GDP growth.

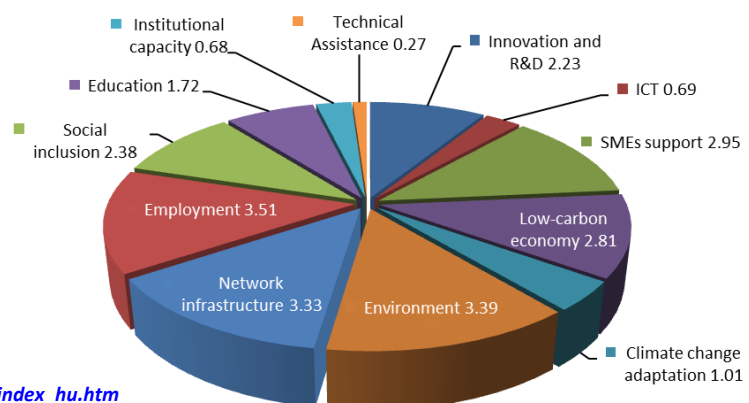
Reforms for investment

In the Country Specific Recommendations for Hungary, the European Union recommended:

<ul style="list-style-type: none"> Reinforce budgetary measures in the light of the emerging gap relative to the debt reduction rule 	<ul style="list-style-type: none"> Stabilise the regulatory framework and foster market competition
<ul style="list-style-type: none"> Improve the transparency of public finances 	<ul style="list-style-type: none"> Increase competition and transparency in public procurement
<ul style="list-style-type: none"> Investigate and remove obstacles to portfolio cleaning, inter alia by tightening provisioning rules for restructured loans 	<ul style="list-style-type: none"> Make education and training better related to the labour market
<ul style="list-style-type: none"> Ensure a stable, more balanced and streamlined tax system for companies 	<ul style="list-style-type: none"> Review the impact of energy price regulation on incentives to invest and on competition in the electricity and gas markets. Ensure the autonomy of the national regulator
<ul style="list-style-type: none"> Strengthen well-targeted active labour market policy measures 	<ul style="list-style-type: none"> Further increase the sustainability of the transport system, amongst others by reviewing the tariff system of state-owned enterprises in the transport sector

EU funding for investment

2014 - 2020
in billion EUR



Source: Partnership Agreement:
http://ec.europa.eu/contracts_grants/agreements/index_hu.htm

Past or ongoing projects for investment

Electricity interconnections

Electricity interconnection.
Commissioning date: 2016
(Hungary, Slovakia)



Gas interconnections

Interconnection.
Commissioning date: 2015
(Hungary, Slovakia)



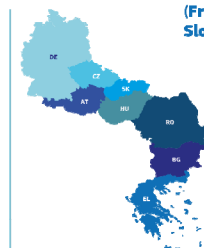
Oil interconnections

JANAF-Adria pipelines.
(Hungary, Slovakia, Croatia)



Transport interconnections

Connecting Europe Facility:
"Mediterranean" core network corridor
(Spain, France, Italy, Slovenia, Croatia, Hungary)



Connecting Europe Facility:
"Orient - East Med" core network corridor
(Germany, Czech Republic, Austria, Slovakia, Hungary, Bulgaria, Romania, Greece)

Connecting Europe Facility:
"Rhine - Danube" core network corridor
(France, Germany, Austria, Czech Republic, Slovakia, Hungary, Romania, Bulgaria)

