Sightseeing the future

A changing clientele for Hungarian tourism?

Support for training
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Dear Members and Friends

AS I AM WRITING THIS LETTER to you, the resignation of the prime minister is still major news, and speculations are running around concerning the political developments in Hungary. Needless to say, Mr. Gyurcsány’s resignation is a significant development and a direct consequence of the lack of his credibility, and through him lack of credibility in the government of Hungary. In the weeks ahead, we will see the formation of new structures and alliances, and hopefully they will bring about regained credibility to the country. Strong credibility is fundamentally necessary in addressing major reforms lying ahead and challenges facing the society and economy. I strongly believe that there is no time to lose in addressing basic reforms, all necessary for Hungary to regain its competitiveness, proactiveness, and efficiency. I hope the next days and weeks will focus on these substantial needs, and leaders of the country will eye the overall long-term interests of the nation rather than short-term political or personal priorities.

Our organization will continue to focus on addressing key issues and to provide forums for meaningful exchange of ideas between the business community and decision makers. For this reason, we organized a very successful and highly attended Business Forum with Lajos Bokros and László Urbán, providing an in-depth view of the reform plans of Bokros and top lines of the analysis of the largest retail bank in Hungary represented by Urbán. By hosting a special Business Forum, we said farewell to the American Ambassador April Foley, who was relentless in supporting AmCham and was focusing on many issues important to Hungary, the most important among them being transparency and fighting against corruption. We will definitely continue her initiatives and will keep these priorities high on our agenda in the future.

I can also report to you that with the full contribution of AmCham, the Investors’ Council elected a new co-chairman. I made the recommendation of the Steering Committee to the Council to elect the CEO of Electrolux, János Takács, to this important position. With the election of the new co-chairman, we thanked András Suga, who has been holding this position since 2001, for the work he did. AmCham will continue to act as the Secretariat for the Investors’ Council. The election provides a new momentum to work with the new government as the challenges facing the investors’ community are numerous.

I do not know which way politics will turn in Hungary in the next few weeks, but you can expect AmCham to remain focused on our priorities, and we will bring the new leaders of Hungary to you at our events, and most importantly, we will keep pressing the issues of transparency, tax and other reforms high on our agenda.

Best regards,
Gusztáv Bienerth

“There is no time to lose in addressing basic reforms.”
Tourist traffic to Hungary has significantly waned since the onset of the economic crisis, and experts predict the climate will not improve this year. But the diminishing forint value may deter Hungarian travelers from leaving home, while enticing outside visitors who hope to capitalize on the exchange rate. To stay competitive, tourism professionals are cutting costs and promoting domestic destinations.

“Now, the situation of the hospitality industry in Hungary is quite bad when we look at parameters from occupancy, volume, and spending,” says Andrea Sartori, partner for KPMG’s Real Estate, Leisure and Tourism practice. Although the exchange rate may incentivize tourists to come to Hungary, “the overall economic situation is not actually helping the overall development of the hospitality and tourism industry, especially corporate spending and high-end leisure spending.”

“Basically, what we see here is a drop of volume in the business,” says Imre Deák, president and CEO of Danubius Hotels Group, which hosted a forum on Hungary’s travel industry at Hotel Gellért in March. This is causing tremendous problems, he says. For example, luxury tours that capitalize on Hungary’s spa culture – a major moneymaker for the Hungary market – has shrunk to about 30-40% of its original business, he adds. Also, many accommodation providers are predicting that events and conferences will be canceled or postponed, and trade events and conferences that do take place will be shortened, according to the tourist office.

The uncertainty of the crisis is making people wary of making long-term travel plans, which, in turn, is making it difficult for companies to form business plans, Deák says. “The whole industry has become a last-minute business.” It has been as problematic as tour guides ordering accommodations for busloads of visitors while on their way into Hungary or conferences for nearly 60 people booking one day in advance, he says. Cancellations have also been done at the last moment, Deák adds. “The lack of confidence is characterizing everything in this economy,” Sartori says.

Tourist traffic to Hungary has significantly waned since the onset of the economic crisis, and experts predict the climate will not improve this year. But the diminishing forint value may deter Hungarian travelers from leaving home, while enticing outside visitors who hope to capitalize on the exchange rate. To stay competitive, tourism professionals are cutting costs and promoting domestic destinations.

“The whole industry has become a last-minute business.”

By Marisa Beahm
Hungary also lags behind other European markets in terms of upscale accommodations, and the lack of liquidity in the market is limiting immediate growth, Sartori says. “There’s been a significant shift of quality in hotels in the past five to seven years from lower-quality facilities to more upscale type of properties. However, if we compare the situation of Hungary and other CEE countries to Western Europe, there is still a major gap in terms of facilities of high quality, like four- or five-star hotels.” Furthermore, the local market is “paying for mistakes done in the past,” he says, as Budapest has lost a lot of ground in the last ten years, since the city hasn’t built a convention center, Sartori adds.

Creating opportunity

When it comes to attracting foreign visitors, the weak forint is advantageous, as “the good price/value ratio means a competitive advantage for destinations,” Niklai says. The tourist office is shifting its marketing efforts to promote the beneficial exchange rate to outsiders, especially to neighboring countries. “We don’t want to say this is a cheap country, but it is a country where you get excellent value for your money,” Niklai says.

Conversely, the forint rate may deter nationals from venturing beyond Hungary for a holiday, which may be a boon to the domestic market. They may swap trips to Croatia – which could cost about 15-20% more this year than last – for the shores of Lake Balaton, Sartori predicts.

The experts are in agreement that despite the crisis, or because of it, marketing efforts need to be amplified and money should be invested in major travel facilities. “In these days, we need to spend much more and be aggressively out in the market,” Deák says. “Otherwise there is no way out. This is very, very important. We know that it’s a very unfriendly, competitive environment.”

Marketing efforts need to be amplified.

Tourism Overview

Tourism is a crucial sector of the economy. It accounts for 8.8% of Hungary’s GDP and employs approximately 500,000 people directly and indirectly, according to the Hungarian National Tourist Office. While tourism declined towards the end of 2008, the first three quarters of the year showed a 17.6% growth in foreign currency receipts over the previous year, according to the National Bank of Hungary.

In 2008, 39.6 million foreign visitors arrived in Hungary, a 1.1% increase from 2007. Last year was also a growth year for domestic tourism, rising 2% over 2007, with a total of 4.1 million domestic guests. The total number of travelers who stayed at commercial accommodation totaled 7.6 million, resulting in 19.8 million guest nights, according to the tourist office. With the declining forint value, experts are predicting more people will choose to vacation within the country this year and will popularize spots like Lake Balaton.

Niklai has been encouraging the government to spend more on destination travel marketing for tourists, to emphasize Budapest’s selling points, as well as to appeal to younger guests. Currently, the tourist office is constantly revising its marketing plan and is shifting its efforts to appeal to neighboring countries, specifically targeting car and bus travelers. It also is promoting Hungary through its annual marketing theme, which is the ‘year of cultural tourism’ for 2009. Next year, it will be the ‘year of the festivals’, as Hungary hosts more than 3,000 such celebrations annually. “Hungary continues to be a popular destination,” Niklai says. “It offers a lot.”
As a reaction to the economic crisis, smaller enterprises in the tourism industry are trying to diversify their customers and program offers, but some are rather pessimistic about their perspectives as tourists are holding back on their spending.

Tempo Tours Travel Agency has for years been organizing trips to Hajdúszoboszló, a town near the Romanian border famous for its thermal baths. “Before 1989, this town used to be very popular among East German tourists, but today they have been replaced by guests from Romania. Around 30% of foreign guests are ethnic Hungarians from Transylvania, and there are many visitors from Slovakia and the Ukraine, as well,” says Tempo director and owner Tibor Kabay. He thinks the economic crisis will not cause them any major loss of profit. “Domestic tourism will increase, and many Hungarian families will spend two- to three-day holidays at the thermal spa of Hajdúszoboszló, maybe even more than once a year,” he says. To retain customers, his company also plans to offer a wider range of programs, but when asked about customers’ spending, the director is more cautious: “I believe Hungarian tourists will hold back on their spending, although families may be ready to pay a decent sum to make the best of their shorter holidays.”

János Dikovics, head of the small bed-and-breakfast Nicolette Panzió in Monor, is not too optimistic about the tourist season in 2009. “We have had fewer and fewer tourists from abroad over the past years. Most of our guests are transitive Hungarian businessmen who only stay for a day or two, as our hotel is located close to the capital city Budapest. Our restaurant is visited mostly by regular locals from the neighborhood. So far, we have not felt the impact of the crisis, but we will be pretty helpless when it influences us,” he admits. “There does not seem to be a demand for new or additional services in our area, and we are unable to lower the prices. In fact, we have not raised them in the last three years. We will try to survive. I am afraid that many of the small hotels, which do not have reserves to rely on, may go bankrupt.”

But Eszter Soós, shop attendant of a folk-art store in one of Budapest’s largest downtown shopping centers, WestEnd, is even more pessimistic. “This year is going to be much worse than the last one was, and I do not see the ways we can extend our clientele,” she says. Although the shop offers a rather wide variety of products ranging from handmade embroidered tablecloths to decorated cushions and unique wine bottles, Soós does not believe that offering even more types of goods would help them. “We are only hoping that the crisis will be over soon, there will come more Western tourists, and our business will move upward again,” she says.

The owner of a well-known folk-art shop on Váci utca – who chose to remain anonymous – reckons he will not wait until he goes bankrupt to close shop. “Already last year we noticed that the economic situation was deteriorating,” he remembers. “The majority of visitors in Budapest in the recent years have been tourists with relatively lower incomes, and they are not after exclusive, high-quality Hungarian products... And we do not even think of opening another shop because now there does not seem to be a demand for high-quality handcrafted products at all,” he says.

This article is part of a cooperation between AmCham and CIJ, allowing junior journalists of Roma origin to gain experience in working for a business magazine.
Planning well ahead
INFINEON INVESTS IN THE FUTURE

It’s a tightly run ship. Visitors to Infineon’s semiconductor manufacturing operations in Cegléd must put on lab coats and antistatic slippers over their shoes before entering the “clean room” space, where its power modules are made. In the pressurized space which keeps dust out, Hungarian employees in hairnets monitor their computer-controlled wiring machines, break perforated circuitry into smaller pieces, and do circuitry testing before the final product ends up in what looks like a pizza box.

**INFINEON’S FINAL PRODUCTS**, which will be shipped back to company headquarters in Germany, go into things like wind turbines or drive mechanisms for electric trams. Working here in Cegléd is considered a top job in this town of 42,000, about an hour’s train ride outside of Budapest. And now, things are getting even better with expansion of Infineon’s operations. Their new €17 million facility, for which the company received €1.4 million in project funding from the Hungarian government, will create jobs and manufacture IGBT power modules (a semiconductor device noted for high efficiency and fast switching). Necessary equipment is presently being installed through April. By 2012, Infineon plans to double production, producing 6 million IGBTs per year.

**WE’RE THERE**

While it seems counterintuitive for a big investment in the midst of the worldwide economic downturn, the managing director of Infineon in Hungary, József Bodor, explains that a significant portion of his present workforce of 470, some 290, are involved in producing IGBT modules. Infineon expects to increase employees working in IGBT module production when output reaches the 6 million unit annual goal. “Considering that there are really drastic redundancies in the electronics and automobile sectors, we’ll be able to grow our total number of employees but not at the pace we’d planned,” he says. “We plan to increase employees working in IGBT module production to roughly 500 within the next three to four years. If I map out the effects of today’s crisis, and the data on semiconductors available in terms of what happened in the last two quarters and what’s ahead in the next two, then today I can prognosticate that probably in total we’ll reemploy 100 fewer people than originally planned, but compared to where we started we’ll be growing by 15%.”

Bodor, who’s been Infineon’s local CEO since 2001, says that assembly of the new manufacturing space will be completed in total, “so that when the market starts up again, we’re there. As our

“when the market starts up again, we’re there.”
Member of the Board Dr. Reinhard Plass stated, this investment is an investment in the future from numerous standpoints – not just because our products are centered around the more efficient use of energy, that they’re oriented to the future, but in terms of the nature of the investment itself. I think this is a testament to the success of our operations in Cegléd,” says Bodor.

Infineon’s operations in Cegléd convinced the international Infineon corporation that the location and geography of the Hungarian facility was a correct decision in further strategic development of the company, he states. “Trust in our products, the level of the amount of rejects, dependability of delivery, our yield statistics, level of cost – in terms of all of these we’re in the vicinity of the world benchmark. Regardless of the economic crisis that the world finds itself in presently, the power semiconductor sector is facing a significant growth. Since we’ve been performing the activity since 2004, Hungary has proven that for Infineon’s headquarters, it can produce trusted high quality with high levels of service to the customer at significantly reduced cost.”

According to Bodor, Infineon in Hungary is competitive with the corporation’s facilities in the Far East when considering total costs and the location of the sales offices, even though labor costs may have increased in Hungary in the last five years. “If we take into consideration today’s demands for high quality, Hungary is able to fulfill expectations for high-technology equipment, and if we consider that most of our customers are European and that these products are heavy and have to be shipped, and that our suppliers are in Europe, then in terms of total cost, manufacturing in Europe is cheaper.” He adds that because of the sophistication of the products manufactured in Cegléd, the closer proximity of Infineon’s competency training center in Germany is also important. “We strictly manufacture for the parent company,” Bodor says. “They transport the materials necessary for our activities, and we ship them back after they’ve been processed. The Infineon corporation deals with the sales of the products.” Infineon’s market relies on big investments with very long-term planning, he adds. “There are so many substantial projects – like for the state – which have long timetables. This is what provides our power semiconductor market with some relative security compared to a consumer market.”

RURAL LOCATION

BODOR HAS BEEN WORKING in the semiconductor business since 1993 in Cegléd as well as in Budapest. He outlines the advantages of running a high-tech manufacturing operation in the Hungarian countryside. “In everyday operations in which local connections are crucial, I believe that a rural location is fast, seamless, and less bureaucratic, which is an advantage in every case.” He believes that, as a small economy, Hungary would do well to build upon such manufacturing activities which are more specialized and have a lower exposure to market forces. “This would provide a stable and more certain opportunity for the country to break out instead of trying to produce in volume. We need to concentrate on the specialized segments.”

He admits that it can be particularly difficult to attract engineers to the small town, despite only being an hour-long train ride from Budapest. Meanwhile, many times qualified candidates are not up to snuff language-wise – German is especially important as Infineon’s parent company is in Germany. “What does make our operations more difficult in terms of our location is the distinct lack of availability of highly qualified personnel. Cegléd does not have electronics manufacturing traditions, so we have to build these up ourselves. We’re not a university town, we don’t have higher education training, and that’s why, when we’re searching for a well-trained engineer, we have to conduct a countrywide search.”

He says that today neither regulatory structures nor wages support the mobility of the Hungarian workforce, which makes it less flexible. “From the side of the raw numbers of the labor force for the mid-level functions, the region is in a good position. According to our experiences, within a very short span of time we’re able to train our workers accordingly to achieve our goals.” Bodor says that because Infineon’s technology is quite special, it takes a long three- to four-month internal training period for someone to be able to fulfill their duties competently and safely – sometimes it can take up to six months.

Out in the wider world, Infineon is the global leader in terms of product technology and modernity, says Bodor. “According to an independent market researcher’s data, in the area of power semiconductors and modules we’re number one globally, with about 10% of the market. Our biggest competitors are Japanese manufacturers. This means that we must maintain our worldwide best-class orientation in terms of all parameters that are measured in this industry. We always do our best to be among the leaders.”

“Concentrate on the specialized segments.”
As part of a greater mission to improve the Hungarian economy and infrastructure, vocational and training schools are being targeted by government reforms and funding. Through recently awarded EU money, some of these institutions may be kept afloat in the challenging economy, and in turn accomplish the government’s long-term goal of streamlining this specialized educational system and combating unemployment by training students for in-demand jobs.

**While there are** still manifold challenges facing professional schools, such as bureaucracy and off-putting stereotypes, there is hope that these funds will improve the schools’ accreditations and demonstrate their importance in an economic downturn.

**RAISE STANDARDS**

**According to** the National Development Agency, Ft 9 billion is available from the EU for developing vocational training in the capital, and three schools – Szily Kálmán, Vbl Miklós, and Petrik Lajos – have already accepted Ft 2.65 billion to finance major infrastructure developments. With the funds, each of these schools will develop state-of-the-art workshops, which will cost about Ft 1 billion each. At Vbl Miklós – a vocational secondary and training school for building and ornamental art – the money will be used to develop “human power equipment” and to enhance the curriculum and teacher training programs. “Putting these into application will improve the specialists and teachers’ preparedness and their supply of methodological aids, which is going to raise the standard of education,” says Albert Deli, Vbl’s headmaster.

This EU grant is part of an ongoing focus to improve and restructure professional schools, and coincides with a vocational training act passed in 2007 and the New Hungary Development Plan. These aim to raise standards, create better conditions for lifelong learning, and promote cooperation between schools, according to Csaba Horváth, Budapest's deputy mayor of human and urban policy, who is responsible for education and vocational training.

School centers, formally called regional integrated technical training centers, have now been established which are composed of cooperating professional schools. “In the school centers we can make such development which answers the needs of the market and also improve the quality of the vocational education,” Horváth says.

**ECONOMIC EFFECTS**

**Occupational schools** are not immune to the changing tides of the economy, and they have been struggling financially, especially since some of their clientele come from the hardest hit sectors, like the auto industry. At Vbl Miklós, the economic turmoil caused a 50% decrease in the sponsorship given by enterprises at the end of 2008 compared to previous years. Deli says. Also, WIFI Hungária Ltd., an adult training institute founded by the Austrian Chamber of Commerce, has found current business to be lagging. Some of the clients are more careful in financing

**Support for training**

**Schools stress their importance during recession**

Vocational training is “absolutely good for the economy.”
“It’s fast and cheaper, and you’re more likely to get a job.”

trainings, so this year has “started more slowly” than last year, says Beáta Földváry, managing director.

The situation of the Vocational Training School of Gödöllő, on the other hand, is currently stable since their students paid tuition for the entire year last fall, according to Gábor Simon, the school’s principal. However, future funding is a concern, he says, as “I am quite sure there will be fewer students who can afford it.” Government subsidies cover 40-50% of the school’s operational costs, but the amount hasn’t increased since 2004, he adds. Moreover, companies that are frequent clients of such schools, like General Motors Hungary, have switched to primarily using internal training courses because of the economic downturn, says Edit Légrádi, company spokeswoman.

EARNING RESPECT

VOCATIONAL SCHOOLS are “absolutely good for the economy,” and are incredibly important during this economic crisis, so they deserve more esteem than they are normally given, Gödöllő’s Simon argues. Although there are many benefits to attending them, “fashion is against us,” as most young people pursue a university education rather than professional training. “I don’t understand why we train so many people at the universities,” he says. “A good hand-worker is so valuable in our society.” In schools like his, students can be trained for a new career in just a few months, and “it’s fast and cheaper, and you’re more likely to get a job,” Simon adds.

Although they have recently shifted to more in-house training, at General Motors 45% of the workforce has been educated at vocational schools, and the company leaders recognize the importance of these institutions. “We believe this type of school represents practice-oriented education, therefore they are valuable for industry,” Légrádi says.

Just two or three decades ago, vocational schools were very popular and it was a competitive process to enter, recalls Ferenc Báti, AmCham chairman of the labor and education council. “I believe the government could do more to investigate what was the reason at that time, why the schools were far, far more popular than grammar schools.”

Budapest’s Horváth agrees that these institutions are underutilized, which is one of the reasons that it was targeted for infrastructure improvements. Through the scheduled reform, the schools’ relations with the labor market will be enhanced to help create more jobs. Also the modern workrooms and laboratories that will be built “will have capacity to give training possibilities for adults, as well cooperate with companies, chambers, and the centers of unemployed people,” he says.

SYSTEMIC CHALLENGES

EVEN WITH CURRENT AMPLIFIED opportunities for vocational schools, there are still obstacles to working within the current governmental system, such as getting paid in a timely fashion from government tenders. “At the end, you get your money, but there are much more serious problems,” says Peter Klingler, manager of training institute Dekra Akadémie in Hungary.

Similarly, Simon’s school in Gödöllő received a government tender to train unemployed people, and they should have gotten paid in 60 days, but they’ve been waiting for a year and a half, he says. However, this issue is not unique to Hungary, he adds, but is prevalent throughout the EU. “I am quite sure we will get our money. It’s not a question, but it’s delayed, and we have to find ways to cover gaps in financing,” Simon says.

Also, staying current with new training legislations and licensing is very challenging. Klingler says. For example, he has been waiting to receive a license to teach certification courses for chainsaw usage, but has no guarantee when it will be issued.

Deli of Ybl agrees that the government bureaucracy could be improved and the whole system of vocational schools could be simplified and made more efficient. How this is carried out will affect the future of the industry, he says. “The success does not depend on us in the long run, but on the flexibility of those legal conditions which are related to the control of training,” Deli says. “It would be good if some things were changed about this matter.”

Horváth is optimistic that the reforms in the schools will alleviate some of the challenges and redundancies in the current system and set this region’s training and workforce apart. “I also hope that the high quality of training will be a guarantee of our students to get a job, start a good career,” Horváth says. “I hope Budapest will be famous for its excellent skilled workers and attracts the investors. I am sure it will happen.”
WHISTLE-BLOWERS are employees who expose wrongdoing and misconduct of a company that results in damage to the public interest. The types of malpractice covered in the Hungarian law will be criminal offenses, failure to comply with legal obligations, threats to people’s health and safety, and damage to the environment. According to the law proposal, employees who reveal suspected malpractice will be better protected from losing their job or being victimized than they currently are. They will be offered legal and financial assistance if necessary, and if the breach of law is officially established, they will also be entitled to a financial reward – a certain percentage of the fine imposed.

All this closely resembles US legislation, as explained by Stephen M. Kohn, executive director of the National Whistleblowers Center in the US, to Draskovics and representatives of all major political parties in Hungary in October. According to Kohn, such legislation has proven to be very effective in the US, recuperating $12.6 billion directly and $7.4 billion indirectly for the federal government since 1987. But maybe more importantly, he said, it has a huge deterrent effect.

Hungarian legislation goes even one step further by establishing a special anticorruption unit, says Draskovics. This unit will have special powers to investigate independently from the police and the public prosecutor, and it will have the power to punish companies with a fine of up to two times the value of damages inflicted. It will also have the authority to serve company managers with a maximum five-year ban on exercising their profession if they haven’t done enough to prevent misconduct by employees.

According to Draskovics, these are very harsh measures. “Imagine you are a director of a company which has taken part in a government tender, and suddenly you are sitting in the office of this special unit and you have to prove that you have done enough to prevent your employees from manipulating the result of this tender. That is not easy at all,” he says. “But we need to increase the risk level of being caught. Current rules are apparently not sufficient, so we have to resort to something more effective, even if that is out of the ordinary,” he adds.

But it is exactly this special unit which doesn’t sit well with Transparency International Hungary, says its executive director Alexa Noémi. TI Hungary wholeheartedly supports the new whistleblowers proposals, which are good and necessary, Noémi emphasizes, but still the organization has asked the government to postpone its amendments so some critical issues can be clarified first. “It is unclear what kind of investigations this new office can perform exactly, and how that relates to what the police and public prosecution are doing. And as long as there is no clarity about everybody’s role, the result will be chaos, at least.”

What would be even worse, she says, is if nothing much is done to improve the capacity and efficiency of police and prosecution in tackling the big fish and elite corruption in Hungary. “That is obviously where the real problem is, and if nothing is done to solve that, you might see the special unit going after all kinds of smaller transgressions of rules and regulations, while criminal proceedings in the real big cases are still not being handled well. Then this new office would be just window dressing.”
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Border business
SHOPPING TOURISM IS BOOMING

Late in the afternoon on a Saturday, the center of the little Hungarian border town of Balassagyarmat makes a deserted impression. Most shops here are already closed and streets are virtually empty. But at the border crossing with Slovakia, 500 meters down the road, there is a constant trickle of Slovakian cars entering the country and heading straight for the nearest gas station or the Tesco, the Lidl, or other supermarkets at the edge of town. Drawn by the weak forint, Slovaks, Slovenes, and Croats flock across the border hunting for bargains.

In the parking lot of the Tesco in Balassagyarmat, right on the border, Slovakian cars clearly outnumber those of Hungarians. “These days, about 80% of our customers come from across the border,” says cashier Katalin, meaning business has picked up considerably over the past few months. Prices on the Tesco shelves are written out in forints only, but posters at the entrance draw attention to the fact that customers can also pay in euro, and cashiers give change in euro too. The shop also has a Slovak employee, especially to attend to questions and problems of customers who do not speak Hungarian.

However, most Slovak customers do speak it, as they come from Velký Krtíš (Nagykürtös) or other places in the border region where many inhabitants are ethnic Hungarians. But there are also cars from as far away as Zvolen, 75 km up north, while two men loading a TV, a DVD player, and other electronic gadgets in the trunk of their car are from Banská Bystrica, almost 100 km away. The price difference is significant enough to make even this trip worthwhile, they explain.

Particularly popular with Slovak customers are goods like electronics and food, but medicines are much cheaper in Hungary as well, so the saleswoman of the pharmacy attached to the Tesco shopping center says that she also gets a lot more customers. “Products can be up to 30% less expensive here,” says Jana Kováčová, another customer, while unloading her shopping cart into the car. “But you have to pay attention, not everything is cheaper.” For example, Hungarian milk is still more expensive than Slovakian milk.

Most Slovak customers say they started shopping across the border after the euro was introduced in Slovakia on January 1. But price differences really began to add up with the slide of the forint compared to the euro, says Petr Novák while his wife and son load groceries into the car. “We come to Balassagyarmat once a week now to do our shopping,” he adds.

This phenomenon also appears to be taking place along the southern borders of Hungary, where shopping Croats and Slovenes evoke memories of the 1990s, when citizens of former Yugoslavia came to Hungary because the war had emptied shelves at home and driven prices sky-high. Today, they are drawn to places like Nagykanizsa partly because of the exchange rate difference (Slovenia introduced the euro two years ago), but also by the more liberal Hungarian business hours. By law, Slovenian and Croatian shops are closed on Sundays, which has made a shopping trip to Hungary a favorite Sunday pastime.

But for Slovakia, the development could take dramatic proportions, as it is not only losing retail customers to Hungary, but also to the Czech Republic and Poland, whose currencies depreciated as much as the forint. Slovakia stands to lose some €400 million in taxes this year, around €2 billion in turnover, Slovakian retail organizations warned recently.

“About 80% of our customers come from across the border.”
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Help in crisis times?

YOUNG PROFESSIONALS EYEING AN MBA

In March, the QS World MBA Tour hit town, holding its first MBA fair in Budapest in three years. Hosting such events – where business schools tout their often-expensive educational programs to would-be students – is risky anywhere in a time of global economic crisis. It’s the more so in Hungary, where a tumbling currency means programs priced in euro and dollars have become even harder on the wallet.

Hungary may be facing its deepest recession since the early years of transition and money may be short, but that did not deter the more ambitious local professionals from lining up outside the MBA fair at the Corinthia Grand Hotel Royal, in Budapest on March 19. Their goal – to discover which school and business program best suited their career hopes. “For the first hour and a half candidates queued outside the main hall – the line was about 200 meters long. Most came sharp on time, at 6 pm, and it meant our registration team was stretched,” says Zoya Zaitseva, global operations manager for the QS World MBA Tour, the fair’s organizer. Some 250 candidates turned up – about 40% more than for the previous fair in 2006.

THE PARTICIPANTS

László Vastag, a medical doctor now working in clinical trials, was among those waiting.

With four years’ work experience after graduation from University of Pécs, Vastag believes an MBA would open his horizons and give his career a timely boost. “I feel it’s time to go back to school and study again, this time from a managerial point of view. I would like to get a solid theoretical basis of business administration, including general management and some project management,” he says.

Once inside at the tables, he found the personal talks with school recruitment officials “revealed important details” and were “much more useful than any of the home pages or brochures. It was my first fair. I could get a better impression of the schools and programs and collect personal advice, plus additional info on what is not yet official, but might be worth waiting for, for example a planned new program starting next year,” he says. But the most important lesson was “that you need to have a certain level of working experience in order to maximize the value you get for your money – and you want that as most of the programs are very pricey.”

At 28 and fluent in English, Vastag is the archetypal potential recruit the 26 schools at the fair had come to meet. But was he archetypal of participants at the fair? “We’ve had some good quality candidates, but you soon pick out the brochure collectors, those not so well-prepared, who have no insightful questions,” says Roger Palmer, associate head of Henley Business School in the UK. Inevitably a few participants were young and lacked the business experience required by many schools.

Does an MBA help to deal better with the crisis?
although for Aimee Akimoff, of Willamette University in Oregon, this was not a problem. “It’s been wonderful. The students I’ve spoken with have had great questions; we take them without work experience, as we provide that in our program,” Akimoff says.

**INCREASED DEMAND?**

**BUT FROM A MORE STRATEGIC** point of view, did the high turnout – both in Budapest and at an earlier fair in the Bulgarian capital Sofia the same week – indicate business schools will see an increased demand for MBAs, despite or even because of the economic downturn? It is certainly affecting potential MBA candidates, said Ádám Ecsery, public relations manager at the CEU Business School in Budapest: “I felt the same thing at our presentation and our booth. For many people, in the current economic situation the main question was: Will I be a better manager to deal with the crisis if I get an MBA?”

But, it seems the jury is still out on whether this interest will transform into increased demand for MBA places. “We’ve seen more applications, but whether that means more students in class, well, that depends,” says Dario Consoli, of the Vlerick Leuven Gent Management School.

For László Vastag, the decision to take an MBA was made before visiting the fair, but this was in part forced by personal circumstances. “I’m committed to a part-time program. I need to work to earn for the fees, and want to stay with my family while studying, so this excludes full-time international MBAs,” he says. And while a majority at the fair were clearly keen to pursue some sort of MBA, not everyone was convinced.

Mihály Flaksay, a young businessman trading in medical instruments, was one skeptic. “I’ve been looking for a business school, mainly in Germany, and at CEU. But I’m not sure it’s very beneficial for Hungarians right now, with the low forint. In fact, I’m not convinced that it’s not just better to work and gain experience,” he said.

**ADVICE FOR BUDDING MBA STUDENTS**

If you are applying for an MBA at, for example, “Carnegie Mellon University,” make sure your essay does not say how long you have yearned to study at “Cranfield School of Management.” It may sound like obvious advice, but in these days of cut-and-paste, Dario Consoli from Vlerick Management School has lost count of the hilarious applications he’s come across from would-be candidates. “When writing your application, you’ve got to show that you are applying to that particular school,” Consoli told the seminar that was part of the fair.

For those unsure of what they want, the QS World MBA fairs hold discussion groups and workshops which help would-be students sort out the options and avoid pitfalls like getting the school name wrong. It is perhaps the most valuable single service provided at such events. Applicants face a bewildering choice with what MBAs offer, from full-time, two-year studies typical of North America via weekend or modular programs, to fully online versions available in their living rooms. There is also a vast array of providers – from big brands like Harvard Business School and Insead to more familiar domestic names such as Corvinus University Budapest and Budapest Technical University – and an equally vast range of prices.

Then there are the add-on expenses, from traveling to interviews to basic living costs, all of which can mount up, Zoya Zaitseva of QS World MBA Tour warned the seminar audience. At the same time, an astonishing number of scholarships are available and are there for the taking – some school-, program- or country-specific, others fully open. Yet the general application process can be so time-consuming that many students appear to miss the opportunities to apply for financial aid, Zaitseva noted. The lesson: work out where you want to go and plan your application well in advance, starting as much as two years ahead of when you plan to begin studies, she said.
Banks tighten conditions

THUNDERCLOUDS OVER OFFICE MARKET

The office market in Budapest saw record levels of delivery and renting last year, but that was before the effects of the global recession had taken hold. The outlook this year has taken a tumble even in the first quarter, and banks are tightening pre-rental and pre-financing conditions.

By KESTER EDDY

The band played, the bosses beamed and the mood was upbeat at the Allee ‘topping out’ ceremony, in Budapest’s Kelenföld district on March 19. Situated on the site of Skala Budapest, communist Hungary’s pioneering flagship supermarket center of the 1970s – Allee is a massive 70,000 sqm mixed-use development combining retail, residential, leisure, and office space, scheduled to open at the end of this year. Aside from the usual catchphrases about “central location” and “excellent transport connections,” Pál Baross, CEO of developer ING Real Estate Hungary, had good reason to be chirpy – over 70% of Allee’s retail space has been let to a listful of big brands, including Van Graaf, Marks & Spencer, and Humanic, all underpinned by a 6,500 sqm Interspar hypermarket. In addition, 80% of residential space had been leased or sold.

But Baross admitted that so far none of the office space had been let, though talks were ongoing and there would be no problem finding takers, he insisted. Indeed, despite the growing amount of empty office space in Budapest – vacancy rates hit a five year high of 16.8% at the end of last year – he stressed there would be no delay to the office development, scheduled for completion in spring 2010. “Letting will be difficult, but the office part is only 8% of the project. I started at ING delivering on promises, and I will continue to deliver,” he said.

In the case of Allee, Baross will probably be proved right; real estate gurus seem united that its location will ensure its success. “It’s an excellent project, right at the heart of District XI. We had no problem leasing the retail space,” says Thierry Delvaux, managing director of Jones Lang LaSalle in Budapest. Moreover, rents would be “at south Buda prices” of some €13-15 per sqm, Eanna Maksay stresses. Maksay is researcher at DTZ, the agency working on Allee. However, given the rising vacancy levels, “I’m not saying they wouldn’t go lower,” she confessed, hinting at the problems now being faced by property owners in Budapest.

The danger is that cranes will be standing idle.
ADVANTAGE TENANTS

There may be development problems for the real estate sector and general economic worries, but oversupply and a lower forint make Hungary a more competitive location for outsourced services. “You lead a major corporation, and you are asked to cut costs; you can cut on HR, finance and IT departments across Europe, and go to a cost-effective market, where you can hire 1,000 people and they deal with all these functions. In such financial turmoil as we have now it makes even more sense to do this,” says Jones Lang LaSalle’s Thierry Delvaux.

Under such pressure, corporate heads in North America and Western Europe view Hungary as an attractive location. “They see a proper European country with the EU stamp, political stability, and people are highly educated. We are in negotiations right now with a big global corporate,” he said last month. Within days, that corporation was revealed as global energy player BP, which plans to create over 1,000 jobs in Hungary in the next four years. “BP will start by taking 7,000 sqm, expanding in stages to a total of 17,000 sqm,” Delvaux later said.

Agency DTZ predicts total take-up at 250,000 sqm this year – down 25% on last year’s record of 330,000 sqm, but on par with totals in 2005-2006. Many of the new contracts will be from existing tenants taking advantage of the pressure on rents to cut costs while even trading upwards in terms of space and location, says DTZ’s Stephen Morris.

“The office sector is very much a tenants’ market. Occupiers are more inclined to relocate when their lease come up for renewal, as there are opportunities to rent new accommodation on attractive terms, sometimes for less than the current facility,” he said.

FRIGHTENING SCENARIO

INDEED, REAL ESTATE professionals in Hungary are increasingly facing a potentially frightening scenario among all sectors of the business. János Hidasi, of Colliers International in Budapest, warned in January that the economic crisis meant banks “will be even more conservative on the real estate market, while the investment atmosphere will be more cautious.” And Colliers’ valuation head Ákos Balla euphemistically spoke of “remarkable negative processes in property value” – in other words thumping write-downs. But Colliers staff were basing their previous predictions on Hungary’s economy contracting by 2.5%, yet by the end of March economists were speaking of figures anywhere between 3.5% and 6% as Hungarian export began to feel the full force of the slowdown in Western Europe.

In particular, why is the office market – which saw a record take-up of 330,000 sqm last year – now seemingly on the verge of crisis? “The situation changed even in February. Banks are renegotiating their deals [on loans] with the developers. They can’t keep the same conditions as in early 2008,” says Delvaux. Equally problematic, some banks are also insisting that continued financial turmoil as we have now it makes even more sense to do this. “Developers used to put up 20 or 25% of a project, with the banks providing the remainder in loans; now the banks want more like 50%, plus before you get the 50% you have to pre-let 30% of your development. But no developer has 50% equity, so the pipeline for 2010 was zero,” says Delvaux.

Hence any delays to this year’s work will both ease the vacancy rate problems and flatten the construction curve – fewer jobs but spread out over a longer period. “I was here in 2001, when we were at 22% vacancy; it took years to cut this back. We don’t even know if they will need it,” he argues.

As a result of the tighter conditions, DTZ predicted in early March that “approximately at least 20%” of the 340,000 sqm of office space originally in the pipeline for delivery this year will be delayed. “We are in volatile times and it is difficult to predict how the market will react in the next 12 months,” says Stephen Morris, head of occupier services at DTZ.

Delvaux is even more downbeat; “We are trying to calculate but we think there’s going to be significant delay to 150-200,000 sqm. There is a danger cranes will be standing idle while the developers look for pre-letting contracts. Budapest could look more like, how can I put this, some exotic cities in the East,” he says.

SILVER LINING

THERE IS, HOWEVER, something of a silver lining to the office construction thundercloud. The huge surge in planned building of some 600,000 sqm originally scheduled for 2008-2009 would have meant vacancy rates heading towards 25% by the beginning of next year. Worse still, banks have begun demanding more equity from developers to start projects – cash the developers do not have. “Developers used to put up 20 or 25% of a project, with the banks providing the remainder in loans; now banks want more like 50%, plus before you get the 50% you have to pre-let 30% of your development. But no developer has 50% equity, so the pipeline for 2010 was zero,” says Delvaux.

Hence any delays to this year’s work will both ease the vacancy rate problems and flatten the construction curve – fewer jobs but spread out over a longer period. “I was here in 2001, when we were at 22% vacancy; it took years to cut this back. We don’t want to be there again,” he says.

KEY OFFICE INDICATORS FOR BUDAPEST, 2005-2009

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<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
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<tr>
<td>Total supply (sqm)</td>
<td>1,540,000</td>
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<td>1,855,900</td>
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<td>Annual take-up (sqm)</td>
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<td>248,744</td>
<td>325,368</td>
<td>330,289</td>
<td>250,000</td>
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<td>Vacancy rate (%)</td>
<td>11.64%</td>
<td>12.83%</td>
<td>12.22%</td>
<td>16.80%</td>
<td>22.00%</td>
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<td>€ 17.50</td>
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* forecast
Over the past decade, the Polish and Romanian economies have benefited a lot from young people’s emigration to Western and Southern European countries for work. But the current crisis might trigger a substantial remigration, and nobody knows what the consequences will be.

Following the fall of the Iron Curtain in 1989 and entry into the EU in 2004, Poland has experienced the greatest wave of emigration ever in its history. Estimates are that there were 1.8 to 2 million Polish workers, or around 6% of the entire Polish population, living and working in other EU countries last year, in particular in Great Britain, Germany, Ireland, and Norway. Joanna Tyrowicz, coauthor of a study by the Foundation for Social and Economic Initiatives (Fise) in Warsaw, pointed out to the Polish newspaper Gazeta Wyborcza that 70% of Polish emigrants are aged 18 to 34, and one-third have a higher education qualification.

The migration outflow from Romania was even bigger, estimated to be between 2.5 and 3 million people of working age in 2008. This figure represents an astounding 10% of the population and more than 25% of the entire Romanian labor force. The most favored destinations for Romanians were Italy (1.5 million) and Spain (1 million).

To put these figures in perspective, one should imagine between 600,000 and 1 million young and skilled Hungarians leaving the country between 2000 and 2007, looking for jobs and a better life. In reality, the total Hungarian labor emigration figure is probably closer to between 70,000 and 80,000. and 40% of them went abroad already more than ten years ago. Slovakia has a much higher official emigration figure, with some 180,000 Slovaks working in other EU countries (in a population of only 5 million). But 90,000 of them are in fact working in the Czech Republic, which, considering the shared Czechoslovak history until 1992, is hardly a foreign country in this respect.

A Boost for GDP

According to World Bank studies, the direct effect of such labor emigration on the GDP of a country is minimal, only 0.1% to 0.2% extra growth for every 10% of the workforce leaving. But the indirect effect from remittances, money sent home from abroad, on consumption, construction, and small businesses is much bigger and can be several percentage points of GDP.
Official inward remittances to Poland grew from $1.7 billion in 2000 to $2.6 billion in 2003, $3.6 billion in 2005, and $5 billion in 2007. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be larger. Some estimates put the level of Polish remittances in 2007 from the UK only at about €5.9 billion per year, a stimulus that added about 2% to the GDP of Poland. By way of comparison, Poland is receiving €67 billion from EU cohesion funds for the period 2007-2013 to promote growth and employment, which is equivalent to €9.6 billion annually. Again, the figures for Romania were even higher. Minimum estimates for remittances were a yearly $4.5 to $5 billion in the period 2005-2007, with the World Bank estimating the 2006 volume to have been some 4.1% of GDP.

“We think this [emigration] was beneficial for both the old EU economies and for ours, because wages are being transferred back to Poland, which has boosted consumption in our economy,” says Piotr Bujak, a macroeconomist at BZ WBK Bank in Warsaw. Economists agree that this huge transfer of earnings influences the level of consumption and raises the living standard of households in the home country. People are also encouraged to invest their incomes from abroad, especially in the real estate market. At the same time, more and more companies from the home country also start setting up branches in the countries where the number of emigrants is the highest.

Especially in the first years of the emigration waves (2004-2006), unemployment rates in both countries went down substantially too, in Poland from 19% in 2004 to 11.7% in 2007, and in Romania from 8.6% in 2002 to 4% in 2008. As a result, the state had to spend less on unemployment and welfare benefits and could rake in more taxes. On the negative side, countries started to experience serious labor shortages, especially in the building and services sectors, health care, and also industry, and consequently wages started rising fast.

REMIGRATION?

THE QUESTION NOW is whether the international crisis will force all these Polish and Romanian workers abroad to go home again. “The short answer is: one can only speculate; it is simply not clear,” says Hermine Vidovic, labor market specialist at the Vienna Institute for International Economic Studies (WIIW). According to Polish migration expert Professor Krystyna Iglicka, up to 400,000 of the estimated 1.2 million Poles living in Britain and Ireland could lose their jobs as the global financial crisis hits the building and service sectors there. But she also insists it is still too soon to say how many may return home.

Some studies suggest that many workers will. Irish recruitment firm CPL, for example, which also has offices in Warsaw and Krakow, reported in December 2008 that one-third of the estimated 200,000 Poles living and working in Ireland plan to return to Poland in 2009. CPL sent questionnaires to over 1,500 Poles living in Ireland and received more than 500 responses. Among the respondents, 33% said they would return to Poland within 12 months, a further 13% said they would return over the next two years, while 9% said they would “never leave Ireland.” Recessions in Ireland are one of the main causes of the exodus, but a lower tax rate in Poland was also cited as a reason to leave. Other surveys suggest that 55% of Poles living in the UK would like to return to Poland, claiming that while Great Britain initially opened its employment market to them, it is now closing it down again.

But other studies come to different conclusions. A survey published by Money.pl, a major Polish language financial portal, suggests that a majority of Polish expatriates intend to stay abroad this year despite the threat of job losses amid global financial turmoil and nearly 40% do not want to return. “Just 22% of Polish migrants intend to move back to Poland in 2009,” the portal says. Also, 60.5% of respondents said that if they would return home, this would not be permanent, and given the opportunity, they would go abroad again. “Declarations of the desire to return do not equal the actual physical step of buying a ticket and going home,” Bartlomiej Dwornik, author of the report, told news agency AFP.

Of course, if people return, that might not be entirely negative. Returnees bring with them another labor culture and they might help to stimulate the economy by establishing businesses of their own in their home country. But Petru Dandea, vice president of Romania’s biggest trade union Alpha, worries about rising unemployment if Romanians in Italy and Spain may decide to return in the spring. “They didn’t come to Romania because the unemployment benefit in Spain is higher than in Romania. But if the situation doesn’t reverse, when the unemployment benefit period is over, an important part of them will come back,” he told BBC News.
A new chapel for the inmates

PRISONERS LEARN FRESCO PAINTING

Becoming a fresco painter may not seem like an obvious career path for convicted burglars or rapists. But restoring old paintings in churches and other monuments is exactly what some detainees of the jail in Balassagyarmat might be doing in the future, assuming they successfully conclude the training the prison provides.

By RUNA HELLINGA

At the same time, the restoration has become part of the prison’s aim to teach convicts a useful trade. “During communism, the emphasis in the prison system was on re-education,” Budai says. “But in the middle of the 1980s, it became obvious that that idea didn’t work at all. Nowadays, we try to prevent recidivism by offering vocational training, which helps people to build a new life. Many inmates never even finished primary school.” As most prisoners come from the surrounding area, training programs are set up in cooperation with the regional employment office. “Construction workers such as housepainters, carpenters and bricklayers have the best chances, so those are the skills we concentrate on,” Budai points out.

Some 65% of inmates in Balassagyarmat prison work during their time inside, a high percentage compared to other penitentiary institutions. The prison operates its own shoe factory, and prisoners also do community work. They built benches and wooden decorations for the town park, helped to restore the open-air theater, and cleared up the surroundings of the new bus station. The inhabitants of Balassagyarmat are grateful for these activities, Budai says: “We are the largest employer in town; almost everybody has family members working here. Therefore, people see us as part of their daily lives, not as something to be afraid of.”

“He are the largest employer in town.”

The jail in Balassagyarmat, 60 km north of Budapest, is a historical monument. It is the oldest prison building in Hungary and also the only round one. Such round prisons where all cells look out on the inner courtyard were a novelty in Europe in the middle of the 19th century. But the building in Balassagyarmat is also different because it is not dome-shaped, as most round prisons elsewhere are, but is a tall-rising cylindrical stronghold around a courtyard, with a separate tower in the middle.

Recently, the prison started training 70 inmates to become fresco painters. Specialists teach them about colors, pigments, and fresco painting techniques, all in preparation for the restoration of the historic chapel at the top floor of the central tower, which is conducted by Zsolt Lencsés, a local fresco painter who learned the trade in Italy. In 1956, the nonreligious heyday of communism, the chapel was converted into a common room, and the painted cupola disappeared behind an ugly flat ceiling. The room has served several other purposes, since, and was most recently a library.

Soon, it will be an ecumenical chapel again, while at the same time remaining the prison’s library, and will serve as a stage for concerts and other performances organized by the inmates, says prison director István Budai, the man behind the renovation plans. And the future chapel will be much more colorful than its predecessor, Budai adds: “We plan to decorate the space with religious frescoes. There will be a contest amongst the prisoners for designs.” As the original decoration of the chapel was rather sober and of little cultural value, the Hungarian National Trust – which had to approve the restoration plan because of the monument status of the building – had no objection.
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Analyst views

In the name of EU solidarity

Is a new iron curtain threatening to divide the European Union? Hungary’s prime minister, Ferenc Gyurcsány, raised the specter in February when he warned that the eastern members were descending into economic mayhem while the richer EU countries were looking unsympathetically. Gyurcsány then suggested that the EU should provide €180 billion in emergency aid for budget bailouts and banking rescues in the East. His idea was swiftly rejected at an informal EU summit at the beginning of March. Does this rejection mean the end of EU solidarity – the glue that keeps the union of 27 countries together?

**By Katinka Barysch. CER**

No. First, not all new member states are in as much trouble as Hungary. The governments of the Czech Republic, Poland, and other Central and Eastern European countries that are doing better economically said there was no need for a region-wide bailout package.

Second, the EU has in fact shown a good deal of support for those new member states that needed it. At the end of 2008, the European Commission doubled its emergency fund for countries that struggle to finance their external deficits to €25 billion. In March 2009, it doubled it again. It has used some of that money to cofinance large loan packages for Hungary and Latvia, and now also Romania, under the auspices of the International Monetary Fund. National governments, for example in Sweden, have also contributed to such loans.

If more emergency lending is needed, the EU could raise even more money to cofinance IMF lending. But the EU should not seek to replace the IMF. The European Commission does not have much experience with imposing the kind of economic conditionality that usually comes with large balance of payment loans. Conditions such as cutting budget deficits and streamlining the state administration are painful, especially at a time when economic output is plunging and unemployment is rising – which is why the IMF is now softening the austerity plans for some Eastern European countries.

Yet conditionality is considered necessary to ensure that the money really addresses the problem and that the borrower can eventually repay the loan. The EU’s reputation for solidarity would hardly improve if eurocrats, rather than IMF officials, told these governments to sack more civil servants and cut pensions. When EU governments recently agreed that the IMF’s resources should be at least doubled, they did so with Eastern Europe foremost on their minds. The EU countries are likely to contribute €75 billion to the extra $250 billion that the fund is expected to get.

European leaders have also instructed their other institutions to help the new member states. The European Bank for Reconstruction and Development, the European Investment Bank, and the World Bank have made almost €25 billion available to help banks and businesses in Central and Eastern Europe. The European Central Bank has given significant short-term euro loans to Hungary and Poland so that people there can continue servicing their foreign-currency denominated mortgages. Those countries, such as Austria and Sweden, which are heavily exposed to bank lending to Eastern Europe, have injected new capital into their banks. It is in these countries’ own vital interest to do so since their financial stability would be at risk if large chunks of the East European loans went sour. If some Eastern European subsidiaries have to be bailed out, the responsibility will have to be shared. Austria, Belgium, Greece, Sweden, and others did not prevent their banks from lending irresponsibly across borders while some Eastern European countries foolishly allowed people and businesses to binge on foreign currency loans.

All the evidence so far suggests that the EU will not allow systemic banking failures or sovereign defaults in any of the new member states. Nevertheless, there is more that the union can and should do to help its newest members. More EU budget funds should go to energy and infrastructure projects in the East. The EU needs to have a proper debate about whether the Maastricht criteria for euro zone entry make sense for the fast-changing new members.

Most importantly, the old member states must prevent a fragmentation of the single market. Exports make up 80% of GDP in many of the Central and Eastern European countries, and most of these sales go to the euro zone. The new members’ economies depend on foreign investment. Both old and new member states have benefited from the movement of workers around the union. When Western European governments tell their banks to lend only to local businesses, or suggest that their companies should build cars at home, or null restrictions on foreign workers – that is when EU solidarity threatens to break down.

Katinka Barysch is deputy director of the Center for European Reform (www.cer.org.uk.)
**Fox Autorent** has always had a reputation for innovation and change, and earlier this year we decided to take a hard look at the relationship between our clients and the use of the internet. There has been a considerable change in the international car reservations market, with more and more focus on internet booking systems.

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While the decision itself further deepened the division lines within MDF, it also created an opportunity for the party to reach out to new groups of voters before the elections in June. This step alone is no guarantee for success (jumping the 5% threshold to come into Parliament), but it has generated interest for MDF which, in itself, is an achievement for a small party.

In the meantime, Ferenc Gyurcsány won the race for party presidency of MSzP with commanding ease, but this went together with him sacrificing his position as head of government. After long discussions, MSzP and SzDSz agreed on the person of Gordon Bajnai, minister of economy, as the new prime minister designate. Although at the moment this article was written he had not presented his program yet, he warned in his introductory press conference that substantial austerity measures would hit the Hungarian society in the near future.

From among all parties, only Fidesz remained stationary. While the largest opposition party keeps urging for early elections, it also keeps waiting. Fidesz can afford to do that as it is currently the organization with the largest voter support in the political arena.

It is clear that the “voluntary” exit of Gyurcsány from the position of prime minister is part of yet another game in power techniques. The head of government was operating in a vacuum both in domestic as in foreign policy. It was predicted he would leave after the June European elections, expected to be a failure for MSzP, so he escaped forward again. He used the congress of MSzP, called to renew internal party positions, to step down as prime minister – thereby surprising even the top echelons of the party – in order to keep his leading position in the party internally. His unexpected move was successful because the congress was almost unanimous in confirming him as party chairman.

He could even make sure that the new prime minister designate is one of his key confidants. But, rich with tragicomical elements, the final reconciliation process weakened Gyurcsány terminally, so he had to resign also from his position within the party just a few weeks after his confirmation. It is not known yet if he will leave Hungarian domestic politics for good, or whether he has decided for a short-term voluntary exile.

The success of the crisis government of Bajnai – provided of course that he is elected as prime minister at all – is even more unpredictable than the future of Gyurcsány. The global economic crisis deepens every day, so that the equilibrium of the economy should be maintained in an economic environment where the downturn of the GDP can be even steeper than what is currently prognosticated. The expected drastic austerity package will not only sharpen social tensions but also bears the risk that certain groups of the MSzP will back out from supporting the new prime minister.

Another negative feature is that internal animosities within MSzP and SzDSz have strengthened in the last few weeks, and the relationship of trust between the two parties has also deteriorated further. The work of the government is made more difficult by the circumstance that – in addition to Fidesz and MDF – the majority of the society and the market, and even the President of the Republic urge for early elections. Many say that early elections would be less risky than crisis governance under the given circumstances.
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### State Loan for OTP and FHB

The state of Hungary will provide OTP Bank with a loan of more than Ft 400 billion, and FHB Bank with a two-installment loan of around Ft 120 billion in order to boost corporate and retail lending. The loans will carry a market interest rate and will be provided on the back of a €20 billion IMF/EU/World Bank financial package. OTP has undertaken to use the loan to finance domestic clients, including granting at least Ft 200 billion in corporate loans. FHB will use the state loan to grant retail (home) and SME loans. The state will receive one seat on OTP Bank’s supervisory board and one on its audit committee to oversee the use of the loan. The state is already represented on FHB’s board. Banking Association director Péter Felscuti criticized the deal as being not transparent enough.

### Gordon Bajnai Next Prime Minister

On March 29, the socialist MSzP and the liberal SzDSz agreed on Gordon Bajnai as their candidate for prime minister, after a weeklong search for a suitable candidate that was dubbed by many a political circus. A new PM became necessary after Ferenc Gyurcsány in a surprise move on March 21 announced he would resign. Bajnai said that Hungarians would have to make big sacrifices but they would not be made in vain. He allegedly required the explicit backing of parliamentary deputies of MSzP and SzDSz, and their support for whatever measures he deems necessary to manage the economic crisis, unnamed sources told MTI.

Bajnai’s reform plans seem broadly similar to a package of proposals put forward by the Reform Alliance. His government’s program will supposedly involve cuts in state spending of up to Ft 600 billion, with considerable consequences for the incomes of public servants and pensioners. Drastic changes are also planned in the social benefit system and the system of home buyers subsidies. At the same time, the tax wedge will be lowered. Radical measures are widely seen as necessary, as the Hungarian economy is said to contract between 4% and 7.5% in 2009, and the forint has come under huge strain.

It was also said that Bajnai planned to appoint people from outside the Socialist Party to key ministries. This government can only survive if, within the first few weeks, he succeeds in establishing the perception that this is a strong crisis-management cabinet, said political analysts Kornélia Magyar (Progressive Institute), Mark Szabó (Perspective Institute) and Csaba Tóth (Republican Institute) when talking to foreign correspondents on March 30. The three analysts also agreed that main opposition party Fidesz will keep demanding new elections, although the party probably doesn’t want that to actually happen, and that it will keep refusing to come up with an alternative anti-crisis program, at least until shortly before new elections.

### List of Layoffs Still Growing

Hungary’s average unemployment rate climbed to 9.1% in February. Among the list of companies laying off staff because of the crisis were poultry-processing company Merian Oroszháza (180-210), wire harness maker Axe-Tronic (300), farm machinery and automotive parts maker Linamar Hungary (700-750), model-railroad maker Marklin (80), clothing maker Levi Strauss (549), paper company Piszke Papir (420), and food company Goldsun (50). Distiller Zwack has announced that it will cuts its staff by nearly 6%. CIB Bank will lay off 300 employees (8% of group staff), and MKB Bank will lay off 60 staff. Printing joint venture Elanders and Hansaprint will be practically shut down (75), while aluminum company Alcoa plans to sell two of its Hungarian units. Tile maker Zalakeramia will temporarily shut down production at its plant in Tofej.
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MOL AND RUSSIA

Oil and gas company MOL intends to pursue its own strategy aimed at generating value for the company’s shareholders and protecting the interests of other significant parties involved in the MOL Group’s sustainable development, following the sale of Austrian energy company OMV’s stake in MOL to Russian oil company Surgutneftegas, MOL announced. OMV sold its 21.2% stake in MOL for €1.4 billion. MOL has no past or present strategic or business contacts with Surgutneftegas, which is widely seen as closely connected to the Russian government.

BP SERVICE CENTER AND OTHER INVESTMENTS

British Petroleum (BP) will set up a service center in Budapest, offering jobs for 1,000 people. The finance chief of BP’s refining and marketing unit, Richard Hookway, said the center will offer a wide range of both commercial and financial services for clients. A PricewaterhouseCoopers report, quoted by business daily Világgazdaság on March 17, said that Hungary remains among the most favored sites for multinationals setting up regional service centers. While investors in production capacity are generally sitting on their hands in the midst of the global crisis, the crisis has actually spurred the “business” of setting up regional servicing centers due to the potential cost-savings. According to one survey, Budapest is Europe’s second most popular destination for regional service centers after the Czech city of Brno, said the paper.

Three other large international firms are also contemplating moving their regional service centers to Hungary or bringing direct investment to the country, according to the paper. It says French engineering flagship Alstom is planning to open a local office with some 160 staff, US conglomerate 3M is considering setting up a logistics complex, while high-end fashion designer Christian Dior has reportedly singled out the elegant building of the former Ballet Institute in Budapest.

Other investment plans were announced by sporting-goods chain Decathlon, which will build its Central European warehouse and logistical center in Hatvan, truck manufacturer Scania, which will open a Ft 700 million facility this summer, drugmaker Sanofi-aventis, which has expanded its vaccine distribution base in Budapest, and bus maker NABI which will have to expand capacity at its factory in Kaposvár in order to meet huge orders from the US. Kurstjens is building a Ft 2.5 billion biogas plant in Varda, and Guntner-Tata plans a Ft 4 billion investment at its heat exchanger plant to expand capacity. Hungary will also get its third Hilton Hotel (€40 million, five-star, 12 floors) to be build in Visegrád. Finally, city officials and university staff laid the cornerstone of the Ft 2 billion Genomics Innovation Center in Szeged.

GAS PIPELINES

Hungary and Russia signed agreements on the establishment of a joint venture to build the Hungarian section of Russia’s South Stream gas pipeline, and on the development of a gas storage facility in Moscow, on March 10. The final decision on the investment will be made within 24 months. A feasibility study must be completed no later than December 31, 2009, and a similar study must be made by Gazprom for the entire pipeline by June 30, 2010. According to the Hungarian government, the Russian South Stream project, as well as the EU-backed Nabucco pipeline that should deliver gas from non-Russian sources, need to be developed. Early in March, the Nabucco project was only at the last minute included on a list of projects to receive support as part of the EU’s €5 billion development package. There had been some confusion about this, with rumors that Germany didn’t want Nabucco on this list.
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CZECH GOVERNMENT FALLS

The Czech center-right coalition government of Prime Minister Mirek Topolánek lost a no-confidence vote in Parliament on March 24. Subsequently, Topolánek offered his resignation. The no-confidence vote was initiated by the opposition social democrats and supported by some defectors of the Green Party, a member of the coalition government.

It is unclear to what extent the fall of the minority government will influence the current EU presidency of the Czech Republic. Some commentators fear at least a short-term weakening of the EU, while the fall of the government might also slow down or even derail the process of ratification of the Lisbon Treaty, which still has to be signed by the Czechs. The problems are certainly another blow to the planned US radar base in the Czech Republic, advocated by Topolánek’s government but already voted down once a few weeks ago by the Czech Parliament.

Czech President Václav Klaus played down the significance of the fall of the Czech government halfway through the country’s EU presidency. “The fall of the government is not something unknown or catastrophic in a constitutional system that works,” he said in a brief address at his official residence in Prague. Some commentators suggested that Klaus will not appoint the prime minister’s replacement before the end of June, so Topolánek could continue his rule till the end of the Czech EU presidency. (Czech Happenings, Prague Monitor)

FORD TO INVEST IN ROMANIA

Ford Motor Company will invest €1.2 billion in Romanian car production. The US carmaker will start building advanced, low-capacity car engines in Craiova starting late next year, the company announced on March 16. Transit Connect will be Ford’s first model produced in Craiova. The company has already asked the European Investment Bank for a €600 million loan for the project. Overall, economic figures in Romania are also getting more and more gloomy. Moody’s analyst Kenneth Orchard estimates Romania’s economy will contract by 2.4% this year, and the budgetary deficit could register 5% of GDP. Unemployment figures in Romania could increase to over 800,000 in 2009, a 200-300,000 increase compared to initial estimates, Labor Minister Marian Sârbu declared. Also in March, Romania concluded a €12.95 billion loan agreement with the IMF. (SETimes.com, HotNews.ro)

POLISH UNEMPLOYMENT TO GO TO 14.5%

According to the Polish central bank, unemployment will be growing fast until 2011, with the LFS (labor force survey) unemployment rate expected to rise from 7.4% in 2008 to 14.5% in 2011. LFS unemployment is estimated on the basis of questionnaire surveys in which people who work under the table or are uninterested in taking up a job are not treated as unemployed, even if they are officially registered as such. Experts at the Polish economy ministry say the economy has been affected by the global crisis with a delay. They predict that Poland’s GDP growth will be below 2% this year. The competitiveness of Polish goods on foreign markets and the profitability of exports are improving, the ministry says, but exporters are unable to benefit from the latest depreciation of the Polish zloty due to a drop in foreign orders. The central bank expects the economy to continue to slow steadily until the fourth quarter of this year. The central bank projects that Poland’s GDP will grow by 1.1% this year, 2.2% in 2010, and 3.7% in 2011. (Warsaw Voice)

SLOVAKIA APPROACHING ZERO GROWTH

According to the latest estimates, Slovakia’s economic growth this year will be around zero. UniCredit Bank chief analyst Ján Tóth predicts that the country’s economy will slip into a recession with a 0.5% fall in GDP, which will translate into a failure to keep to the Maastricht public finance criterion. By contrast, Poštová banka analyst Eva Sárazová expects Slovakia’s economy to grow only by 0.3%. The latest prognosis by VÚB bank, for its part, put Slovakia’s economic growth in 2009 at zero, which is also significantly down from the bank’s previous prediction of 3%. According to VÚB Chief Economist Zdenko Štefanides, the economy is mainly being dragged down by falling foreign demand. (Radio Slovakia International)
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Ultra-luxury is out

Many restaurants might close

Proving the oft-touted ingredient to restaurant success – location – is hardly gospel, a series of high-end downtown eateries have closed this season due to plummeting sales. First to go was Páva, the Four Season hotel’s flagship restaurant with expansive windows looking out to the Chain Bridge, a restaurant that gave Budapest its first serious footing in the European dining circuit. After a two-year run, the hotel announced this January it was closing Páva, sending minor shock waves through the city’s restaurant scene. A series of elite haunts soon followed, including top-rated French restaurant Lou Lou, and “new Asian” hotspot Fusion.

The soured economy and Hungary’s plunging forint have hit the city’s restaurants hard, as both locals and tourists have cut back on extracurricular luxury spending to weather the storm. Predictions by market experts are grim: by some estimates, a third of Hungary’s restaurants are expected to close this year, and tourist visits, already down this spring, could drop by half, compared with last year’s summer season. How this will affect the city’s higher-end dining market is the question buzzing among top-tier restaurateurs, many who fear a slow summer season could signal a wide-scale restaurant bust.

Local following

The consensus amongst insiders seems to be that ultra-luxury and “art food” restaurants are out – not just in Budapest, but everywhere. Many restaurants might close

Best positioned to survive the recession, they say, are the city’s smaller, more established stock of higher-end bistro-style eateries – Bock Bistró, Chez Daniel, Café Kör, Két Szerecsen – spots with affordable prices and a loyal local customer base. Bock Bistró owner and executive chef Lajos Bíró, for instance, reports a steady local business (on late Tuesday afternoon in March, the room was packed with a Hungarian-speaking clientele), but a virtually “nonexistent” tourist crowd. A rising star of so-called “new Hungarian” cuisine, Bíró has built his restaurants – he also owns the award-winning Múzeum Café and Restaurant – around an upper-tier local following. “People want good food for good value,” he says, “flashy luxury restaurants that count on tourists are going to have serious problems.”

According to people like Bíró, the economic crisis has exposed an obvious weakness in Budapest’s elite downtown restaurant scene, flooded by tourist-dependent, design-driven operations that lack...
culinary depth and local draw. Although a string of fatalities that will not end soon has marked this season, the tumult in the city’s restaurant scene is cleansing the circuit of those spots many insiders saw as operating on a flawed business model. “No restaurant, even in good economic times, should rely on tourist traffic alone,” says Rozina Wossala, manager of BOB Bistro, a new jazz lounge/restaurant on Szent István tér. Part of the successful Hungarian-owned Leroy franchise, BOB opened its doors this winter at the recession’s onset. With its jaw-dropping swanky décor – outfitted by noted interior designer Attila F. Kovács – and a key spot along a well-trodden tourist path, BOB appears at first glance to be poised in the exact niche that has led so many overly posh downtown establishments to ruin.

But Wossala, who earned her restaurant management chops in Florence, says their strategy is to avoid the so-called “tourist trap” by cultivating a local following, a place where “locals can come after going to the gym, a tourist can come with flip-flops,” she says. “People want a trendy but unpretentious spot with good food, good quality service, and not tiny plates with complicated food.” These days, she adds, just selling a “coffee or a cake is good business,” and survival means drawing on a wider socioeconomic client base than on the evaporating upscale tourist crowd.

Meanwhile, the ultra-posh restaurant niche is in retreat everywhere – Paris, London, New York, Chicago – according to János Kiss, vice president of food and beverage for Hyatt Hotels. A Hungarian native who splits his time between Chicago and Budapest, Kiss says many top-tier establishments across the Europe and the US are either closing up shop or dialing back their operations to meet the dire economic climate, opting for higher-end bistro-style venues in hopes of broadening their market reach. “There is no market for exclusive luxury food anywhere, but especially not in Budapest,” he says. “But there is still a strong local market for upscale, trendy European-style bistros.”

MICHELIN NOD?

THIS WAS PRECISELY the strategy the Four Seasons undertook by closing Páva – now operating as a banquet room – and pushing instead the Gresham Kávéház, its upscale cafe next door. It is “elegant but relaxed,” as Four Seasons marketing director Sherryn Bates describes it, using the new recession-minded buzz phrase being echoed by a growing number of restaurateurs.

Yet a new vocabulary alone is not enough to lure the city’s deep-pocketed local crowd – a demographic many restaurant owners are banking on for survival. “The developed, sophisticated gastronomic culture you find in places like Paris is still very new in Budapest,” says Anna Niszkács, marketing manager of Onyx, an ultra-chic, intimate downtown eatery owned by famed confectionary Gerbeaud. Among the city’s top-rated restaurants since opening in 2007, Onyx is doing its part to raise the culinary bar in Budapest, vying to put the city on the culinary map by becoming the first Michelin-star rated restaurant in Hungary, a coveted designation that has so far evaded a small handful of viable contenders. “It would be great for Budapest,” Niszkács says.

While a Michelin nod would no doubt boost the city’s culinary credibility – the only one in Central Europe is in Prague – the question is more about its suitability in today’s market. “It takes extremely deep pockets to run a Michelin restaurant,” says Hilton’s Kiss, who is wary such a designation is necessary when so many restaurants are struggling just to keep open their doors.

Today’s is a service-oriented market, says Kristóf Kovács, owner of smash hit Déryné, a bistro-style restaurant/coffeeshouse in Buda. A television producer turned restaurateur, Kovács has earned the admiration of a growing circle of restaurant insiders, who marvel at his operation – “no one in Budapest is doing what he does,” one manager pined. Kovács has resuscitated the classic bourgeois European-style cafe – a concept lost in the post-socialist capitalist shuffle – on the site of a once-famous Buda coffeeshouse. With marble-topped tables and a fresh stock of international newspapers and magazines, Déryné is a Parisian-style café minus the pomp, drawing on a vast repository of middle-class café dwellers out-priced by the upscale onslaught in Pest.

Kovács says the crisis calls for “a whole new business formula for Budapest’s restaurants,” one based on revitalizing the city’s once-rich local café culture. In this survival-of-the-fittest restaurant climate, Kovács says he has switched into “crisis mode,” giving his staff extra-discretionary powers to keep customers happy – larger portions, upped service quality. “No restaurant can afford right now for even a single customer to leave unhappy,” he says. As for what the city’s upper-end restaurant landscape might look like six months from now, Kovács predicts: “The losers will be gone, and the winners will be stronger.”
These are seven places to meet an important friend or business client, who is half as affluent as you are, but still, you split the bill. Until the crisis struck, newer and newer restaurants were so much in the focus of middle-class interest that a great contemporary poet, János Térey, even wrote a play about it, titled “Table Music”, set in an imaginary luxury restaurant of inner Buda.

CAFÉ KÖR
The place for power lunches, the only corner table often hosts the governor of the national bank or the CEU professor who has become synonymous with austerity packages all around Central Europe. Personal, intimate, and still mundane, with a lot of foreign (mostly American) conversation. Note the day’s offer on the wall. The name of the place is a pun, hinting both at “circle” (Hungarian) and “heart” (French). (Pest V. Sas u. 17)

KLASSZ
The name is difficult to translate: terrific, classy, great. This ingeniously devised cosmopolitan bistro was an instant success. There are two secrets: dozens of wines by the glass and the “no reservation” policy. In the back is a wine shop, the kitchen is upstairs. Soups are a forte. (Pest VI, Andrássy út 41)

MARQUIS DE SALADE
By far the most funniest name, possibly the most adventurous menu, full of Caucasian specialities. The name is from a patron who played the part of de Sade at the time. The menu is from the Azerbaijani lady who immigrated in the early 1990s and developed this restaurant out of a small salad bar. Never full these days. (Pest VI, Hajós u. 43)

KISKAKUUK
A neighborhood institution north of Margaret bridge, continuously operating since 1913. Great and relaxed atmosphere, nobody is in a hurry. Mainly traditional Hungarian cuisine. When making a reservation, avoid the recent extension to the left. (Pest XIII, Pozsonyi út 12)

MILLENIUM DA PIPPO
It inherited the tiles on the walls from a former restaurant – a hint at the nearby underground stations. Not terribly fashionable, yet. It is not a pizzeria at all, but an ambitious Italian place with Pippo himself around. Have a look at the central table with fresh salamis and other delicacies. Also ideal for happy adult lovers. (Pest VI, Andrássy út 76)

BIARRITZ
A medium-sized and intimate place with international food and attentive service near Parliament, with a political crowd at lunch and neighbourhood clients in the evening. There are photos of the original Biarritz restaurant in the late 1930s on the walls. Nothing really special, but at a reliable “good old days” level. (Pest V, Kossuth Lajos tér 18)

ABSZINT
A Paris-style bistro with a nice gallery, ideal for smaller formal dinners, and a pleasant terrace from spring to autumn to observe the crowd. It was the dream of three young ladies in 2001, friends from the College of Catering. In 1900, there were so many cafés in that avenue that when someone looked for a midwife, he was told to go “to the block where there is no café.” (Pest VI, Andrássy út 34)

SOMETHING OLD: FIRENZE IN BUDAPEST
A great architect of the late 19th century, Alajos Hauszmann, designed this building for Count Tivadar Batthyány. The count commissioned him to design a copy of the famous Florence Palazzo Strozzi. A smaller version, of course, since one cannot go around it. There is a grandiose wedding hall on the ground floor. (Pest VI, Teréz körút 13)

SOMETHING NEW: AQUAWORLD
Serious lovers of waterslides have a reason to rejoice. Aquaworld is situated at the Pest end of the new Megyeri Bridge. Under a huge dome are all kinds of pools and a central construction somewhat ridiculous imitating Angkor Wat. A great place, surrounded by an open-air part soon to be operational. There are fancy steam baths and saunas. You have to pay by the minute. (Pest IV, Íves út 16)
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The place is famed for the fact that you can get the best bread in town here. It is spreading like a legend that the owners import the wheat from Transylvania, and it gives the pleasure of eating bread we now know only in our dreams. When I am able to get hold of it (as the bread war is raging on among these walls as well), albeit with considerable delay, the experience compensates for everything.

As an addition, in the last minute before my stomach fully collapses, a bite, or rather, a sip also arrives. A beverage made from black salsify. Black salsify (Scorzonera hispanica) – or black asparagus as it is referred to here – is a nice gesture, but if I didn't know it, I would have a hard time identifying it. It is still plausible that they made painstaking efforts to work with unusual ingredients and integrate them in their gastronomy.

Having calmed down, I am sipping on Veltlin Green and order duck’s tongue salad. I notice, with some concern, that the bottle is not placed in an ice bucket. This goads me to drink faster. I cannot understand why my waiter treats this noble potion so poorly. The duck’s tongues on a bed of parsnip and corn salad is very picturesque. It is a lovely composition, sided with yogurt espuma – it is the most angular feature on the plate, albeit just a gesture, some garnish. The duck’s tongues are too chilled and thus have lost from their characteristic flavor. All in all, it is decorated with a harmonic, handpicked cluster of beautiful, young leaves. The whole thing is characterized by rare freshness and lightness.

The black risotto served with the lamb tenderloin (black rice, which may be from Thailand or Tibet or Indonesia, is essentially wild rice) is very flavorful, much more buttery than the white; its consistency is also wonderful, and it does not contain gluten. Hanging onto each other, bashful and blushed with pink, are placed the lamb chops. I venture that they have been made so tender yet dense-textured by sous-vide processing. They retain their internal juices perfectly; only one or two slices proved less successfully prepared, and I am also missing a more brusque sauce to go along.

I must emphasize that all of my critical observations are due to the fact that the food prepared here exceeds the Hungarian standard by a long mile, and if anything is amiss, that is what I am trying to mention.

White chocolate mousse with soft curry ice cream arrives as dessert, in which the wrathful flavors of curry are made truly cool and silky. It is a witty combination, very memorable. Service is of a rather inconsistent standard, as if they were struggling with logistical problems. Still, what I sense is not the lack of personal dedication, as much as organizational anomalies. This however is compensated by their utter satisfaction with their own performance, which may be the only chance in this situation for survival.
**ALPHONSE MUCHA EXHIBIT**  
Until June 7

The sensual, dreamy images of Czech artist Alphonse Mucha were epitomal to the Art Nouveau movement that swept across Europe and the world during the Belle Époque era, and while the fanciful flower patterns and sinuous lines of his paintings’ borders are certainly beautiful, the real centerpieces of his ornate visions almost always revolved around one motif: gorgeous women. In the temporary Budapest exhibit “In Praise of Women”, see Mucha’s softly-tinted creations prominently featuring captivating members of the fairer sex – become enchanted by these lovely lasses at the Museum of Fine Arts (Pest XIV, Heroes’ Square); view www.mfab.hu to learn more.

**NEW FLEMISH MASTERS FESTIVAL**  
April 9-30

When art historians discuss the Flemish Masters, their focus is ordinarily on the venerable works of Brueghel, Van Dyck, and Rubens – but art futurists can catch a glimpse into the 21st-century Flanders cultural scene with Budapest’s “Futurspektiv” series of performances and exhibitions. For almost three weeks, cutting-edge Flemish contemporary artists will enliven venues across the city, including choreographers like Arco Renz (whose movement methods blend styles of Balinese dance and kung fu) and modern dramatists including Wayn Traub, who fuses electronic music with eclectic visuals. Check out www.futurspektiv.hu for program and location info.

**ANTON CORBIJN EXHIBIT**  
April 29-July 5

A modern master behind the lens, Dutch photographer Anton Corbijn captures myriad musicians and celebrities in solemn and introspective portraits that illuminate raw emotion. Since the 1980s, Corbijn uses his grainy black-and-white technique and an eye for distinct settings to expose the famous in a new frame. His photos and video projects will be showcased in a series examining the collision between high art and pop culture, all at the Ludwig Museum (Pest IX, Komor Marcell u. 1); see www.lumu.hu for details.

**“DIALOGUE IN BLACK AND WHITE” EXHIBIT**  
Until June 28

Drawing parallel lines between Hungarian and Polish cultures during Europe’s interwar years from 1918 to 1939, this temporary exhibition presents scores of graphic artworks that portray everyday life, political upheaval, and fantasy alike, offering new perspectives on this tenuously peaceful era of the early 20th century. With this collaboration between the National Museum of Warsaw and the Hungarian National Gallery, viewers can see every patch of cross-hatching and each copperplate etch at the Hungarian National Gallery (Buda I, Royal Palace); log onto www.mng.hu for more information.
Corporate Governance Committee: Taking a leading role

THE CORPORATE GOVERNANCE (CG) Committee was established in 2003, with the mission of increasing the awareness and adoption of good corporate governance and ethical practices. Its strategy is to work with the academic, business, nonprofit, and governmental communities to promote best corporate governance practices.

Good governance is vital for the competitiveness of all organizations, as it is for a nation. In line with this notion, AmCham’s CG Committee has undertaken and launched numerous projects since its inception, including annual academic workshops, seminars, the initiating of case studies, and the launching of a successful grant program for teaching corporate governance and business ethics in higher education, for which the committee awarded seven grants at the end of 2008.

“AmCham is rewarding professors who teach their students best-practice governance and ethics. This is an investment in Hungary’s future, and we can be proud that our program is already going to directly impact thousands of students who will be tomorrow’s leaders in industry, government, and the nonprofit sectors,” says László Czirják, president of AmCham’s CG Committee.

The CG Committee was also proud to publish the first comprehensive Corporate Governance Glossary last year, containing more than 80 of the most commonly used English corporate governance terms translated into Hungarian. The glossary clarifies ambiguities and establishes consistent corporate governance terminology, assisting academics, business practitioners, and Hungarian lawmakers in their work.

More than 25 professors from 15 different universities and several practitioners attended the third AmCham Corporate Governance Workshop in 2008. Meanwhile, the committee will launch a new website this year and plans to develop its volunteer program. The members encourage your participation in what they believe is a long-term investment.

Customs and Excise Tax Committee: Protecting the public

AS ADAM SMITH ARTICULATED, “The motive for the implementation of excise should be nothing more than to curb the pursuit of goods and services harmful to our health and morals.” According to Committee Chair Péter Baján, nowadays governments generally levy excise tax on products which can be harmful to public health such as tobacco or alcohol, or on activities such as gambling, or on goods like gasoline to curb harmful effects on the general environment like pollution. “While excise serves the goals mentioned above,” he explains, “it is a big contributor to government revenues as well, thus providing financial resources for the extra health care and other public expenditures which are needed to cope with effects of excisable activities.”

In the EU, mandatory excise duties are applied to three categories of goods – tobacco, fuel, and alcohol – but how member states implement their excise legislation can differ from country to country. Hungary as an EU member state has to adhere to the European rules for excise. “Altogether, excise taxes represent a substantial part of government revenues, and therefore a carefully administered excise regime helps governments achieve their financial, health, and environment goals, while ensuring a competition-neutral environment for companies as well as preventing increases of illegal activities such as smuggling,” Baján continues.

He says the Customs and Excise Tax Committee aims to maintain continuous communication with all affected parties, including the administration, customs, and various industries helped by AmCham, to contribute to and improve legislation, control, and enforcement in customs activities and the excise regime.
Electronic Manufacturers' Committee: Where competitors become allies

AS CHAIR OF AMCHAM’S Electronic Manufacturers’ Committee for the last year, László Ábrahám says the group’s biggest achievement has been building trust among member companies. “They used to act rather competitively with each other rather than act as partners,” he says.

Ábrahám reports that a special opportunity has emerged with the committee’s support: a technical school in Kazincbarcika hosed an event for companies and their associate schools to discuss the needs of the labor market and explain where electronics enterprises stand on education. “Our aim,” explains Ábrahám after the successful event, “was to highlight how schools and companies need to provide competitive technical knowledge for students.”

The Committee’s other project is to facilitate the creation of an “educational tool kit” – a practical technical curriculum for students – at BME (Budapest University of Technology and Economics) with the goal that participants be able to use this knowledge at their future workplaces, meeting the requirements of the electronics industry. “I am happy to see that competitive companies have dedicated their efforts towards one goal: improving technical education. This is beneficial not only for the students, companies, and the electronics industry, but for the country’s competitiveness as well,” Ábrahám says.

Last but not least, the committee’s next project is spreading the mastery of lean culture, sharing and discussing experiences.

“I would like to thank members of the Electronic Manufacturers’ Committee for their open and positive approaches to our projects,” he says. “I am looking forward to working together on our common programs in the future.”

EU Grant Committee: Mitigating crisis effects

EU GRANTS AND SUBSIDIES have probably never played such an important role in improving Hungary’s competitiveness as in 2009. As financial institutions become more cautious with their lending process, grants and subsidies become important alternative source of financing to supplement traditional bank financing and own sources. To realign itself with other developing economies, between 2007 and 2013 Hungary will be eligible for a development fund of EUR 22.4 billion of which approximately EUR 2.5 billion is available for economic development aimed at improving competitiveness, developing the business environment, and creating jobs.

“The effective use of these funds can contribute to help moderate the negative effects of the economic crisis,” says EU Grant Committee head Zsombor Essősy. “So the government’s responsibility is crucial in this aspect.” In light of the current challenging economic environment, the Committee is planning to address issues related to the improvement of the structure and management of EU funds in Hungary, Essősy says. “Although the government is making attempts to facilitate economic development, we will take an active role in communicating with public sector decision makers and policy formulators, such as the National Development Agency and the respective intermediary bodies, to facilitate sustainable economic development in the long run.”

As part of the action plan, the Committee will also work hard to take part in initial official discussions when new calls for applications are drafted with the aim of providing input on drafts. In general the Committee advocates for a rapid, transparent and flexible EU grant and subsidy system, and it strives for an active dialogue with the respective grant-related authorities so that in the end projects with the highest possible economic and social benefit receive grants. “Finally,” explains Essősy, “we are a contact point for AmCham members to discuss grant-related issues, experiences, problems and best practice.”
Talk about fiscal collapse irresponsible

THE FREQUENT REFERENCES by public figures regarding fears of state bankruptcy in Hungary were “irresponsible” and “very damaging to the country,” university lecturer Lajos Bokros told an AmCham forum on March 9. “I don’t think that in a European Union country, with a decent IMF program, fiscal collapse is a realistic probability or possibility. You never hear me say – not even in private, let alone in public – that we are on the verge of fiscal collapse,” he said.

However Bokros, who was the reform finance minister in the 1995 socialist-led government, said Hungary faced serious fiscal and economic problems that needed urgent attention. The government should press ahead with structural reforms, rather than use the crisis as an excuse to delay, he said.

But the blockage to finding solutions was “rather political,” and he hinted that it would take a radical shake-up to effect a “reconfiguration” of the political status quo to effect change. However, when asked what this meant, he declined to expand further. “We have a prime minister and government [which] seems to be viable in terms of parliamentary support; as a consequence, there is no point in speculating what other configuration there might be,” he said.

On the same platform, László Urbán, CFO of OTP Bank, stressed his concerns that neither the government nor central bank understood the full ramifications of the rapid devaluation of the forint this year, warning that there was “no room for the traditional Hungarian approach” of regaining competitiveness through an even weaker currency. In particular, the authorities had to realize that if the population shunned the forint, it would lead to an implosion of the banking system. “If the population begins to convert their savings because they fear a fall to Ft 350 or Ft 400 [to the euro], then nothing can save the banking system,” he said.

NEW MEMBERS – BUSINESS

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Foley revisits achievements at farewell speech

APRIL H. FOLEY’S COLLABORATION with AmCham has been beyond her “wildest dreams,” she exclaimed during her farewell address. The US ambassador to Hungary used the event, held on March 26 at the Budapest Marriott Hotel, to reflect about her proudest accomplishments during her post, which started in August 2006 and concludes on April 7.

Foley cited her crowning achievement as helping to establish the visa waiver system, which allows Hungarians to travel to the US without visas for trips lasting up to 90 days. Originally, she thought the visa issue “was a problem that we couldn’t solve. I figured it would take at minimum, an act of the US Congress, and most likely, an act of God. I think it took both.”

Another major accomplishment was signing an agreement for a cash-free real estate exchange between the US and Hungarian government, where US-owned properties, including one in the Castle District, will be exchanged for two buildings on Szabadság tér, which are being renovated and should be completed in 2011, she said. Thirdly, the ambassador is proud of establishing Hungary’s Pápa Air Base as a NATO Heavy Airlift Wing, which “visibly cements Hungary into the NATO alliance,” she said.

For her closing advice, Foley urged Hungary to keep working to be more competitive and to fight corruption. Overall, she feels the bilateral relations between the two nations are “fantastic,” as evidenced by Hungarian President László Sólyom, who during her farewell call told Foley, “Well, I guess we don’t have anymore problems between us.”

Making organizations risk aware

PEOPLE OFTEN DISLIKE discussing risk, yet risk is the obverse of opportunity, and is inherent to business progress; the secret to dealing with risk is to learn how to assess it and manage it, Ralph van Uden, director of risk services at Deloitte, told AmCham members on March 18. “I’ve changed the title of this talk to ‘Putting risk in the comfort zone,’” he said. “because risk is not necessarily bad; risk enables you to do business. Any change involves risk, but what you need to do is become risk intelligent, to understand your risk appetite,” van Uden argued.

Naturally, almost all organizations believe they manage risk. “One business executive actually said ‘We manage risk every Friday.’ Let me tell you something: if you manage risk part-time you could soon be looking for a part-time job,” van Uden said. A common mistake is to confuse risk monitoring with management. For example, just a few years ago “everyone believed energy and finance in America were some of the safest sectors, because of the need for compliance... you may have a risk management department, but they usually monitor, but do not manage risk,” he warned.

The only way to properly manage risk in an organization is to put it on the agenda and have leaders themselves “own” risk. “Form a risk intelligence group – an executive-level risk committee – to bring better risk insights to your management team and help create a risk intelligence program,” van Uden argued. Some organizations create a chief risk officer to chair this group, who, with other top executives, helps develop policy and common approaches that are transmitted to business units. When done well, such an approach makes the entire organization risk-aware, which creates a positive feedback effect with employees down the line suggesting solutions from risk elements, he said.
Top performers

CITIBANK HUNGARY STICKING WITH ITS CLIENTS

EVEN SOMEONE WHO hasn’t paid much attention to US headlines regarding the financial crisis has probably heard that Citibank was one of the financial institutions involved in the American government’s bailout. “We certainly have made a lot of headlines in a manner that we didn’t anticipate or want to,” says the head of corporate and commercial banking at Citibank Hungary, László Balássy. “But I think you can’t degrade 200 years of history with a few years of difficulty, and Citi’s a strong brand and will continue to be.”

Balássy contends there’s actually some good news within Citibank’s walls, because the Hungarian franchise is very atypical versus local competitors, with a loan-to-deposit ratio under 75%, making it a net provider of funds. According to Balássy, Citi has about 4–5% of market share on average here, both in consumer and corporate segments. “We have grown at a compounded annual growth rate of about 22% from about 1986 to present, and grew 22% again last year. In the past five years, it seemed overly conservative. But we’re going to continue on a very similar trajectory. And now on a relative basis it’s going to seem very aggressive, because we’ll be able to open doors and discuss things with clients that are facing a lot of closed doors right now.”

In Hungary, Citibank has been able to mitigate its risk through the careful selection of its clients. “We have always looked at the top performers within a segment, geography, or a business line, and we’ll continue to do that,” says Balássy. “Because we had a very high bar for who could actually come and be a client of ours, we tend to stick with most of those customers through the bad times to say that we know that they have long-term viability and sustainability. We try to get out there a little bit early to talk to them about what their needs are going forward so that we don’t run into a kind of hastened or pressured decision making process.”

Do the right things

REGARDING THE GLOBAL FINANCIAL crisis, Balássy believes many of the stabilization measures for the global economy are being implemented, so it’s just a matter of getting people to trust that the safety net has been properly cast. He says that statements made by G-20 finance ministers and US Federal Reserve Chairman Ben Bernanke show that they will make sure that the main players in the financial services space remain stable and credible. “Hopefully, we’ll start to fill people with some confidence, but it’s still going to take some time to get there, which I think will be well into 2010,” he says.

According to Balássy, different countries have different Achilles’ heels, and Hungary’s is twofold: “Broadly you can say that the FX rate, the forint, is important, but I would think that people probably put too much emphasis on the devaluation of the forint and its impact upon consumer loans. The FX impact on the banking system is significant, but for other, more technical funding related reasons. Unemployment, he contends, is probably a bigger risk than the FX impact on nonperforming loans. “You can always talk to a person and say ‘well, we’ll extend the tenure of your loan to make sure that your debt service payments are still tolerable and manageable.’ It’s another thing to talk to the person after he’s lost his job.”

Finally, Balássy believes the crisis is an opportunity to realign Hungary and enhance its competitiveness for when things return to normal. “If you think about it, where was Slovakia five-six years ago? Nowhere! So it’s possible for Hungary as well to do the right things and develop very rapidly. There just needs to be a concerted political and societal will to make the hard decisions.”

LÁSZLÓ BALÁSSY
AMCHAM HUNGARY ORGANIZED the first in a new series of social networking events, entitled Business After Hours, in the newly renovated Café Miró Grande on March 24. The event, with over 110 participants, focused solely on building relations between fellow AmCham members (next to a glass of champagne and some finger foods). It also provided an opportunity for some new members (Café Miró Grande, DFT Hungária Kft., DTM Kft., Gábor Fekete, Habitat for Humanity, Horváth Recruitment Kft., Kinnarps Hungary Kft., and Quintiles Hungary Kft.) to introduce themselves to the other members for the first time. The host of the event was László M. Balássy, head of corporate and commercial banking of Citibank, who highly contributed to the success of the event.
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