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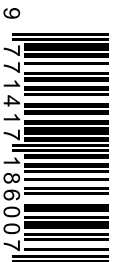
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Trying to regain competitiveness

CRISIS HANDLING DEBATE HEATS UP



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EDITOR IN CHIEF

Henk Hirs

DEPUTY EDITORS

Marisa Beahm, Runa Hellinga,
Drew Leifheit

ASSOCIATE EDITOR

Nick Robertson

PHOTO EDITOR

Róbert Karádi

DESIGN

Dominika Kiss

TYPOGRAPHY

György Éger

CONTRIBUTING WRITERS

László Akar, Beata Balogh,
Kester Eddy, Tamás Kern,
András Török

PHOTO CONTRIBUTORS

BH-PXB Archive, Runa Hellinga,
MTI, Balázs Nagy, Reddot,
Gergely Solymosi, stockxpert,

PUBLISHING DIRECTOR

Margit Kohanecz

SALES MANAGER

Krisztina Otto
(+36 30 664 96 47)

PRODUCTION MANAGER

Péter Wunderlich

PUBLISHER

András Wiszkidenszky

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PRINTXBUDAVÁR ZRT

H-1061 Budapest, Király utca 16
Phone: (+36 1) 887 4848

ADVERTISING INQUIRIES

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LETTERS TO THE EDITOR

business.hungary@pxb.hu



SUBSCRIPTIONS

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AMCHAM BOARD OF GOVERNORS



PRESIDENT

DR. GUSZTÁV BIENERTH
T: (36 1) 266 9880
Fax: (36 1) 266 9888
gusztav.bienérth@amcham.hu



FIRST VICE PRESIDENT

DR. PÉTER PAÁL
IBM Hungary
117 Budapest, Neumann János utca 1
T: (36 1) 382 5613 Fax: (36 1) 382 5501
peter.paal@hu.ibm.com



SECOND VICE PRESIDENT

DR. LÁSZLÓ SZAKÁL
EDS Hungary
114 Budapest, Bartók B. út 43-47
T: (36 1) 279 8000 Fax: (36 1) 279 8001
laszlo.szakal@eds.com



SECRETARY TREASURER

DR. ERZSÉBET ANTAL
Tesco Global Companies Plc.
2040 Budaörs, Kímizsi u. 1-3
Fax: (36 23) 449 237
eantal@hu.tesco-europe.com



BOARD MEMBERS AT LARGE

LÁSZLÓ M. BALÁSSY
Citibank Zrt.
1052 Budapest, Szabadság tér 7.
T: (36 1) 374 5471 Fax: (36 1) 374 5485
laszlo.balassy@citigroup.com



FERENC BÁTI

Individual Member
ferencbati@gmail.com



BARBARA BRILL

Sláger Rádió
1011 Budapest, Fő utca 14-18
T: (36 1) 888 3030 Fax: (36 1) 888 3019
bbrill@slagerradio.hu



ISTVÁN HAVAS

Ernst & Young
1136 Budapest, Váci út 20.
T: (36 1) 451-8700 Fax: (36 1) 451-8199
istvan.havas@hu.ey.com



CHRISTOPHER MATTHEISEN

Magyar Telekom Plc.
1013 Budapest, Krisztina krt. 55.
T: (36 1) 458 7100 Fax: (36 1) 458 7105
vezergazgato@telecom.hu



DR. PÉTER OSZKÓ

Deloitte Co Plc.
1068 Budapest, Dózsa György út 84/c
T: (36 1) 428 6800 Fax: (36 1) 428 6801
poszko@deloittece.com



DR. CSABA SZOKODI

Johnson & Johnson Kft.
2045 Törökbálint, Tó Park
T: (36 23) 510-919 Fax: (36 23) 510-929
csokodi@its.jnj.com



CHIEF EXECUTIVE OFFICER

PÉTER DÁVID
AmCham
1052 Budapest, Deák Ferenc utca 10
T: (36 1) 266 9880 Fax: (36 1) 266 9888
peter.david@amcham.hu

EX OFFICIO MEMBERS

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Dear Members and Friends

HUNGARY IS FACING a double challenge in its current economic situation. The global financial crisis affects our main export markets, the local economy, and the overall business environment. No economy in the world is immune from this phenomenon, which seems to be the first general crisis of a globalized economy. In addition, Hungary suffers from internal economic concerns, and these two combined with numerous interconnections create a super-sensitive economic and political situation.

We believe that more than ever the focus on competitiveness is vital, not only for the Hungarian economy and foreign investors, but also to retain the country's financial stability on its own. For this reason, we continue to support all initiatives that support the competitiveness of Hungary on a global scale, amid new regional and European challenges.

In line with this, the AmCham Board has decided to promote the Reform Alliance, its published reform proposal, and the programs and initiatives outlined therein. Our organization is present at various levels and participates in dozens of meetings all aimed at finding the right and the balanced situation to steer the Hungarian economy out of its current state. We salute the program of the Reform Alliance, which is in line with the recommendations that we made last April and which is also in harmony with the Proclamation signed three years ago.

I am pleased to report to you that AmCham has been invited to participate in the final structuring of the anticorruption package, the retention of workplace ideas, and the better utilization of EU funds, especially by SMEs. These are important areas, and we will continue to focus on providing this support in the interest of all of our members.

I am also pleased to inform you that the new committee and council structure is now taking shape and that André Mécs (Transparency), Botond Rencz (Taxation), Ferenc Bati (Labor and Education), and Andrea Jádi Németh (Membership) have accepted two-year appointments to head their respective councils. From now on, they will also participate in all Board meetings. Councils have to be highly efficient, their operation is key, but the useful operation of all of our committees is important, of course.

I cannot conclude my present letter without thanking the outgoing US Ambassador to Hungary, H.E. April Foley, for the consistent and high-level support that she has given to our organization. We are proud to be able to host her at a special Business Forum this month where she will address past and future US-Hungarian relations as well as the Euro-Atlantic Alliance. I would like to take this opportunity to thank her tireless contribution and wish her well in her new role and responsibility.

Kind regards,
Gusztáv Bienérth



We support the proposals of the Reform Alliance.



Reform packages abound

SHOCK THERAPY
OR TAKE IT SLOW?

On Monday, February 16, Prime Minister Ferenc Gyurcsány outlined the government's budget and reform plans in Parliament. Others presented plans and suggestions containing deeper cuts and more substantial reforms, amongst them the Reform Alliance.

BY HENK HIRS

THE KEY of the Gyurcsány package is to rearrange Ft 800-900 billion in taxes with the aim to boost employment levels. Some taxes are reduced – mainly a 5% cut in payroll taxes and a 1% cut in effective company taxes – while other taxes are increased to make up for the loss in state income. These include some changes in personal income taxes, a 3% rise in VAT, and higher excise duty on cigarettes, fuel, and alcoholic beverages. Overall, the government says tax changes will leave the situation of lower and middle incomes unchanged.

Also, there will be a lot of small cuts in several budget items this year, like reductions in top-up subsidies for farmers, gas and district heating subsidies, health-care subsidies, etc. For the longer term, Gyurcsány wants to gradually phase out the 13th-month pension. Childcare benefits will be tightened up, and the social welfare system will be restructured in such a way that it will provide more incentives for the unemployed to look for work and take part in vocational training.

But the pension age will be raised to 65 only very gradually, while the introduction of a property tax will not be completed before 2014 (allowing time to set up a system of evaluation). Proposals to cut the size of Parliament and local governments, change election laws, and introduce stricter party financing and anticorruption laws, will be very hard – and in some cases impossible – to implement without full cooperation of the opposition.

All in all, the Gyurcsány package will cut government spending by Ft 220 billion this year, Ft 550 billion in 2010, and Ft 650 billion in 2011, so the bulk of the revenue of all these cuts will come in only after the next elections, due around May 2010.

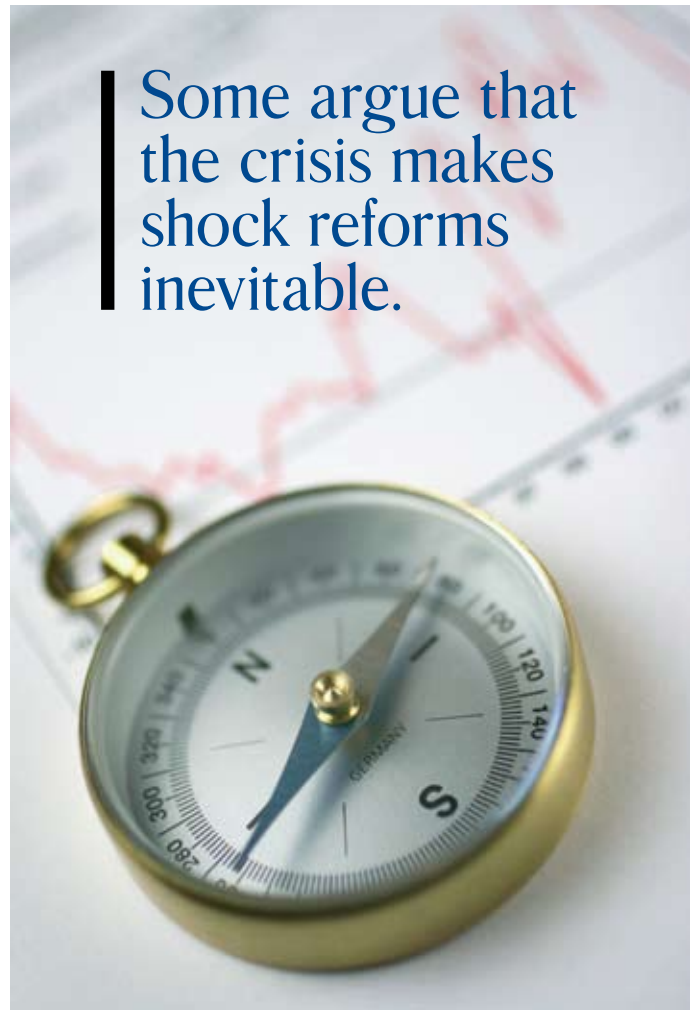
OTHER REFORM PLANS

ANALYSTS FROM SEVERAL BANKS, polled by MTI after the package was made public, said the reform package represented a move in the right direction but it will not provide the Hungarian economy with a short-term boost, and based on the current changes, further reforms were needed to improve Hungary's competitiveness. Experts of the National Bank also said the package will increase the country's growth potential in the long term but will not improve

growth prospects in the short run. Predictably, organizations of employers asked for stronger tax cuts and objected to raising VAT, while trade unions warned against raising taxes for lower incomes too much and asked for lower VAT on basic products like food.

The Reform Alliance, a body of experts chaired by the president of the Hungarian Academy of Sciences, former Fidesz education minister and MP József Pálkás, presented its reform package on Saturday, February 21. The Alliance package saves Ft 330 billion in 2009, substantially more than the Gyurcsány package, at least initially. In the package, employers' burdens would be decreased more, by 5% this year, 3% in 2010, and another 2% in 2011. It would also introduce a property tax for real estate worth more than Ft 30 million already this year and decrease the 13th-month pension more radically, resulting in a Ft 335 billion saving in the pension system between 2009 and 2013. The Alliance also suggests substantial cuts in the budgets of the education system and of state-owned companies like MÁV or BKV.

Some argue that the crisis makes shock reforms inevitable.



An even stronger reform plan was presented a few days earlier in an article in *Élet és Iródalom* by Lajos Bokros, former minister of finance responsible for the Bokros package, the notorious austerity plan implemented by the socialist government in 1995-1996. In his current package, Bokros lists radical reforms that should be implemented, some of them highly controversial. Amongst others, he suggests the introduction of private initiative in health care (axed by the referendum in spring 2008), the immediate scrapping of the 13th-month pension or salary, closing small village schools, closing up to 50–55 of the 77 accredited colleges and universities, diminishing the number of local governments drastically, the introduction of a 10% tax rate for employees on minimal wages, and the fast introduction of a real estate tax.

NOT REALISTIC

THE DEBATE IS BASICALLY whether the crisis makes shock reforms inevitable, or whether a take-it-slow approach to reforms is better. Speaking to foreign correspondents on February 18, Prime Minister Gyurcsány said that such drastic cuts and reforms as suggested by Bokros might look rational on paper, but were impossible to implement. “It is just not a realistic scenario. It is not a program but a war. Closing 50 out of 75 universities? Just imagine how society would react?” He also argued that while experts and employers want bigger cuts in expenditures, they look too big from employees’ or pensioners’ points of view. He added that it is the government’s duty to weigh and balance different proposals and ideas, and find compromise solutions in which everybody has to give in a bit.

But pushed whether he would see room for more cuts if the crisis situation escalated, he said he did see two possibilities. The first was to eliminate the 13th month pension altogether. “That would be a very tough decision, but it saves another Ft 170 billion,” he said. Another possibility, he said, is to cut back all social benefits by 20%-30%. “This would bring in another Ft 200 billion, but

what would Hungarians say?” he asked. In fact, though, these two options would bring the Gyurcsány and Alliance packages very close to each other, and it is therefore no wonder that the prime minister called the Alliance’s proposals not only “chilling in its social impacts” but also “impressive” and he voiced his willingness to discuss certain ideas.

POLITICAL MANEUVERINGS

MAIN OPPOSITION party Fidesz stayed on the sidelines during all these discussions about cuts and reforms (as it has for the past three years), even though cuts are the only way to obtain or save funds. Letting the budget deficit go up, as the Western European and US governments are doing, is simply no longer an option for Hungary, because financial markets have dried up and nobody is willing to lend money to Hungary or any other country in CEE to finance a higher deficit. Fidesz leader Viktor Orbán called the government’s proposals a “package of hopelessness” and repeated that creating more jobs and reducing taxes would be necessary, without saying how such suggestions could be financed.

Most Fidesz politicians were also downright negative with respect to the proposals of the Reform Alliance, including Orbán after some initial hesitation. At the same time, smaller opposition parties SzDSz and MDF, who had already joined the critics in saying that the Gyurcsány package is too little too late, both embraced the more radical Alliance package.

Trying to secure “an effective majority” in Parliament (with MDF and SzDSz) and society (with unions and employers) behind a reform package is now the main goal of the government, Gyurcsány said in his meeting with foreign correspondents. If the country accepts these reforms, he added, he and the MSzP “will face the 2010 elections with our next reform program, which will include major changes in health care and higher education, as well.” ★

Gyurcsány:
“It is just not
a realistic
scenario.”



Struggling to survive

HIGH TAXES AND A LACK OF PART-TIME JOBS

“When my son turned two years old, I wanted to return to my job to work part-time. I was told I was welcome to come back to my earlier position, but only as a full-time employee,” says Katalin Nemes, who had worked as an official at a local government in Pest county for four years before her son was born. She couldn’t accept the job offer, because she considered her son too young for a full-time absence.

BY BEATA BALOGH

NEMES THEN STARTED looking for other options, like launching her own company. “Based on my 15-year-long dancing experience, I wanted to teach classical ballet to children,” she says. But advertising, renting a room, taxes, health-care insurance, and a pension fund are all very expensive, she found. “Me and my husband started calculating and soon realized that these burdens are so high that my business would not generate a profit even if I had as many as ten to 15 students. I didn’t see how it could ever be profitable to anyone,” she says. “It also made me realize why some businesses often avoid issuing receipts or invoices, so they do not pay taxes. But I didn’t want to get involved in such a dubious thing,” she adds.

She admits she didn’t look or ask for help, although there are several nonprofit organizations that are assisting young mothers in finding flexible forms of employment, such as the Welfare Foundation (*Jól-Lét Közhasznú Alapítvány*) or the Association of Hungarian NetWomen. “The tax conditions themselves already made me give up on my plans,” she says.

SMALL GROCERY SHOP

László Harum launched his company in 2003, after more than 20 years of hard physical work as a scaffolding carpenter. He is now nearly 50 and runs a small grocery shop. “At the beginning, I had wonderful plans. I wanted to deal with buying the goods and planned to employ a shop assistant,” he says. “I did start as planned, but this lasted for only two months. Then I realized that the profit earned would not be sufficient to pay the employee’s salary, seeing the high social insurance, pension, and other taxes, and I had to lay off my employee,” he recalls. But as he didn’t have any experience in the grocery business and the operating license required a diploma, he then had to complete a relevant six-month course. “I have been doing this hardly profitable business all by myself ever since,” he says. He cannot close his shop because he took out a loan to start the business. “At that time, I would not have imagined that two

large supermarkets, each with a wide selection of products, would have opened their doors in our neighborhood two years later. My 40 sqm shop is simply not able to compete.”



PART-TIME JOBS RARE

“Although almost 70% of Hungarian women aged 25–64 are employed, close to the EU average, Hungary has the second-lowest proportion of women with young children employed after Malta,” said Maria Frey, researcher at the Institute for Social Policy and Labor during a conference on women entrepreneurship in Budapest last year. Non-typical forms of employment, including part-time or working from home (telecommuters), are rare although they would better suit the needs of women with small children. According to the Public Employment Service, only 5.45% of all actively employed people work part-time, and the share of telecommuters is insignificant with 0.58%. In this situation, most women choose to stay at home until their child is three years old (or even longer with more children) and add to the number of people receiving childcare benefits.



Saving jobs for the future

MINISTER GORDON BAJNAI'S PLANS FOR THE ECONOMY

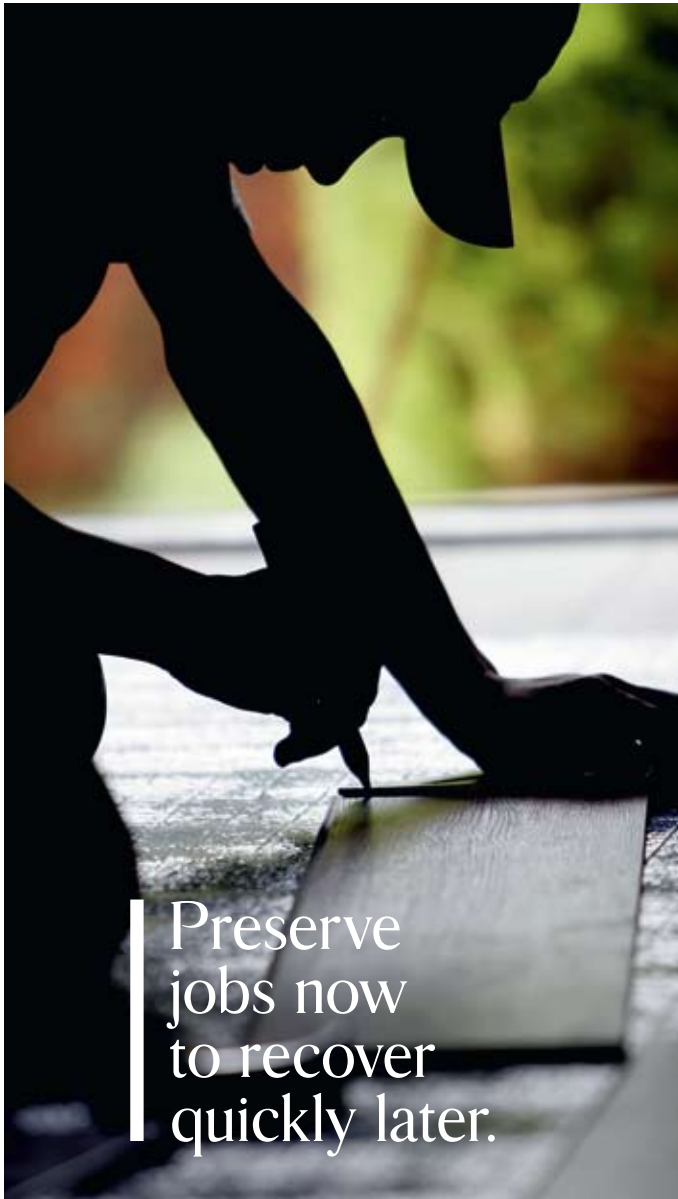
Despite the global crisis, reforms made over the past two years and the government's recent stimulus package and tax changes leave Hungary in a position to not only avoid the worst of the crisis, but to take advantage of the expected future recovery, argues Gordon Bajnai, economy minister.

BY KESTER EDDY

★ In focus

6

Business Hungary



Preserve jobs now to recover quickly later.

BAJNAI ARRIVED late to his presentation for the media where he would reveal his latest plans to inject new life into the economy on February 20. “Sorry for the delay, emergency interviews! A Hungarian entrepreneur who did not win an EU-funded tender entered the ministry two days ago and began a hunger strike in protest. The media wanted my position on this,” he said. But with 27,000 jobs lost since October, persuading disgruntled entrepreneurs that voluntary starvation is not an approved method for obtaining EU grants is perhaps one of the easier tasks facing the man charged with putting the Hungarian economy in order.

THREE PROBLEMS

“THERE ARE THREE PARTS to the crisis affecting the country, two of which affect all developing countries, and one which is Hungary-specific,” he reasoned in assessing the situation. The first phase involved the initial fallout from the global financial crisis, which began in October. Hungary effectively rode this out by quickly arranging the IMF-EU support package valued at €20 billion, which ensured macro stability, he said. However, the subsequent fallout from this is behind what Bajnai terms the “real economic crisis” – meaning the loss of purchasing power leading to reduced demand, recession, and increasing unemployment – a problem all governments are struggling with.

But additionally, Hungary has to battle with a third, country-specific problem: the loss of “growth potential”, he argued. “Between 1998 and 2006 there was no significant structural reform, and Hungary has gradually lost its growth potential, from above 4% to about 2%, plus under-average economic circumstances. This is a problem, because Hungary used to be the leader in this region,” he said.

To combat these problems, Hungary has to preserve jobs so that the economy can recover quickly when world economic demand bottoms out, and meanwhile, introduce reforms to regain competitiveness in order to ensure sustainable growth, Bajnai argued. But it must do this without, once again, resorting to excessive state spending. “The Hungarian government is adamant

Using EU funds instead of state budget funds.

that the gains made in the past two years in cutting the budget deficit should not be put at risk," he said.

STIMULUS

SO TO ACHIEVE its goals, the government is emphasizing the use of EU structural funds rather than state spending – although in order to access this money the state and local authorities will inevitably have to find some form of co-financing. In order to boost job creation, particularly in the hard-hit construction sector, some €7 billion in funding is available in the next two years for infrastructure development, including both new building and refurbishment of roads, railways, universities, schools, and hospitals.

In addition, to help SMEs through the credit crunch, a combined package of €5 billion in EU and State Development Bank credit will be made available in aid, including microcredit and export guarantees. Meanwhile, in order to preserve jobs, companies facing low demand (for example in the automotive industry) are encouraged to reduce the working week and use state support for training programs for one or two days per week. "This program will run for up to one year; the aim is to preserve up to 100,000 jobs this way," he said.

While such measures should significantly help maintain jobs, Hungary needs to do more to reestablish itself as a highly productive economy in the region. "We must make it worth working in this country, and our target is to achieve a potential economic growth rate of 2% above the EU average in order to achieve real convergence to EU living standards," he said. This is the rationale behind the tax restructuring, which has, at its center, the 5% cut in employer contributions. "This brings the tax wedge down from 54.4% to 47.4%, very close to the European average," he stressed.

While excellent on paper, will it succeed? After all, Fidesz, the leading opposition party, has continually criticized the government for failing, it says, to reduce taxes and red tape. Most independent commentators are certainly cautious on the outcome of the reforms, but Bajnai points to the results of reforms in the past two years. "We have cut the time to found a company from 37 days to one hour; you can do it online. Before, if you wanted to establish a company in an industrial zone, you needed dozens of permits; now – provided you are not building a nuclear power plant or such – all you need is to inform the authorities of your intention," he says. The result? Bajnai points to the World Bank "Doing Business" rankings, in which Hungary has jumped 25 slots, from 66th to 41st position (Slovakia is 36th, Italy 65th). "I think we've done a lot in the last two years," he says. ★



€1 BILLION IN FDI DEALS IN 2009?

Despite the gloomy mood prevailing from 2006 regarding Hungary's ability to attract foreign direct investment, 2007 and 2008 have seen FDI deals inked in worth some €1.6 billion and €1.55 billion respectively, despite a "rather dead" final quarter in 2008, according to György Rétfalvi, chief executive of ITD Hungary, the Hungarian Trade and Investment Agency.

Furthermore, Rétfalvi remains cautiously optimistic regarding further incoming investment this year, despite the global economic gloom. ITD Hungary is running a "normal number" of projects this year, and while "capacity-increasing" investments are scarce or subject to delay, the market remains busy with "post rationalization projects," with a number of companies contemplating merging regional operations centering on Hungary, he said.

"It is clear companies are preparing for the near future, when the economic situation is more stable," he told the media on February 20. Nonetheless, two investment deals have already been announced this year, with a further two signed but not yet revealed, he said. Rétfalvi was reluctant to speak of a target for incoming FDI in 2009, but when pressed said he would be "pleased" if the deals inked in made the €1 billion mark, stressing that ITD Hungary totals are the values of deals signed for, as opposed to central bank figures which reveal the actual money transferred into the country, inevitably some time after the signings.

On the trade side of operations Rétfalvi said ITD Hungary was currently advising some 500 Hungarian SMEs on developing sales, particularly abroad. However, in view of the critical situation and need to find new markets, the agency intends to expand its role this year, and would likely be advising closer to 2,000 SMEs by the end of the year.

Growing calls for more regulation

NEW CROSS-BORDER BANKING CRISIS AHEAD?

NATIONALIZATION AND EUROPEANIZATION

Nouriel Roubini, one of the very few economists who warned of the financial collapse long before it happened, now argues that major US banks are virtually insolvent and should be temporarily nationalized in order to solve the problem of toxic assets in an orderly fashion and finally allow lending to resume. "As free market economists teaching at a business school in the heart of the world's financial capital, we feel downright blasphemous (...). But (...) little choice remains," he and a colleague write on *rgemonitor.com*.

In Europe, EU Monetary Affairs Commissioner Joaquín Almunia also said that nationalizing banks "is one of the options to solve the problem of banks in distress." Daniel Gros, director of the Centre for European Policy Studies in Brussels, pleads for a European Financial Stability Fund, which would in fact "Europeanize" many Western European banks and their CEE subsidiaries. The CEE needs a normal flow of credit to the private sector and a substantial recapitalization of the banking sector, he writes. "However, the EU banking sector is not able to finance this and faces the collective action problem."

Calls for tighter regulation of the banking sector are mounting, internationally as well as in Hungary. There was growing nervousness in past weeks about a possible new cross-border banking crisis, and the EU is discussing several new measures to deal with events. **BY HENK HIRS**

FINANCIAL MARKET regulation should be made more transparent in Hungary, systemic risks need to be pointed out, and regulators must be given the right to ban certain financial products if necessary, said Governor András Simor of the central bank at a conference on February 12, according to *MTI Econews*. Prime Minister Ferenc Gyurcsány joined this call when talking to foreign correspondents. "Without wanting to ride an anti-bankers bandwagon, it is not right the way banks can unilaterally change contracts, and it is surrealistic that Hungary's biggest bank makes a whopping profit in a time that everybody is hit hard by the crisis. Market relations are not balanced and need to be adapted," he said.

Chairman of Hungary's banking association Péter Felcsuti was quoted by MTI as saying that Hungarian banks did not have any toxic assets, and their capital adequacy ratios were also better than those of many Western European banks. But he agreed that there was room for the government "to keep a closer eye" on the banking sector, including risk management, new financial products and consumer protection. Meanwhile, not much headway seems to have been made in the ongoing dialogue with banks about the conditions of access to the Ft 600 billion fund to stabilize banks, part of the IMF rescue package for Hungary. According to several press reports, OTP Bank CEO Sándor Csányi said that he is interested in stabilization

Nationalizing banks "is one of the options."





The biggest responsibility rests with the government.

funds only if there are no strings attached, and Felcsuti told Reuters that banks are unlikely to resort to government aid because of the tough conditions.

EU-WIDE STABILIZATION

MEANWHILE, THE EU is discussing what to do to prevent a new cross-border banking crisis. Through their subsidiaries in CEE, Western European banks have a large exposure in the entire region and a seemingly isolated crisis in one country, for example Ukraine or Latvia, may spread quickly. Some fear that in such circumstances parent banks will feel forced to pull out of CEE, thus

trickering a new EU-wide financial crisis. A Hungarian proposal to establish a €180 billion EU package supporting the region's banks (based partly on an earlier Austrian idea) was rejected as a majority in the EU argued that not every CEE country is in the same position. Now, more country-specific measures are under debate. At the end of February, the EBRD, the EIB, and the World Bank also pledged a €25 billion program to help, but this is widely seen as not enough.

In preparation of the G20 summit in April, EU leaders are also debating a plan by an influential working group to set up two new bodies to coordinate supervision of financial institutions in Europe. ★

WARNINGS WENT UNHEEDED

"I think customers knew the risks involved very well, they just didn't calculate with a crisis," says Zoltán Igaz, director of communications with ING Wholesale Bank Hungary, about foreign exchange (FX) denominated household loans which are one of the core problems of the financial crisis in CEE.

The total amount of FX household loans in Hungary – most in euros or Swiss francs – is some €30 billion, with about half expiring within five years, while the total number of borrowers might be about 800,000. "The number of new FX loans is going down substantially since October," says Dávid Németh, ING's macroeconomic specialist. "In particular consumption FX lending, which went on till the Christmas season, is now falling rapidly and will all but disappear, while mortgage lending will continue to a certain extent." Most households with FX loans still have enough reserves to pay back their suddenly higher installments, Németh says, and there isn't a serious problem for the banking sector as long as a few hundred or even a few 1,000 people would be unable to repay. "It goes wrong when tens of thousand start defaulting, but that will only occur if the forint would depreciate substantially more (to 330–350 against the euro) and would stay at such a level for a longer period."

Clients have been warned time and again by authorities, Németh and Igaz say, emphasizing that ING Hungary has never been involved in retail FX lending (though ING is involved in Romania and Poland). There have been press conferences,

articles in newspapers, websites with online risk calculators, and brochures with risk warnings, distributed through banks by the hundreds of thousands. Customers taking out an FX loan also had to sign a declaration in the presence of a notary, stating that they were aware of the risk.

Of course, real life often operated differently. "When I took out my mortgage and had to sign that declaration, I was told by bank staff that this was a mere formality. After all, what could really happen to the euro," says a customer, adding that everybody around her did the same. She has now seen her installments rise by over 20%. "At the time, those who didn't take out such loans were seen as thieves of their own wallets," Igaz says. "And let's be fair, they have had a favorable deal for some years, and in fact still do, compared to having a forint loan, even if they now have to pay more. Back then, people just didn't take the warnings seriously. It is all psychology. If you do not want to see the danger, you will not see it," he adds.

Today, the durability of the forint's value is of key importance, says Németh, so again the biggest responsibility rests with the government. After all, the problems started with the spending spree around the 2002 elections and the budget getting out of hand, which pushed euro adoption further and further away. "We need a sustainable budget for a long period of years," he says. "Then this entire problem will just disappear."

Log on to the job market

INTERNET
CHANGES

THE WAY TO HUNT FOR WORK

When Péter Pesthy would apply for new positions just ten years ago, he'd print multiple copies of his resume and deliver them one-by-one to individual companies. Today, he can simultaneously send his credentials to thousands of companies using employment and networking sites on the Internet. For modern job seekers, the Web is the most logical starting place for those looking to hire or be hired.

BY MARISA BEAHM

WHILE JOB-HUNTING online creates new opportunities for exposure and access to a breadth of positions, turning to the computer is not without its drawbacks, especially in Hungary where there is a low Internet-penetration rate and a career market that is heavily reliant on connections.

WORKING WEBSITES

THERE IS AN OVERWHELMING amount of online resources for those pursuing career changes or for companies looking to switch up their

staff. Most of the websites, which primarily cater to professional positions, allow job seekers to create their own profile, post their resume, and browse the listings for free. Typically, employers pay to post their employment openings or to search through the candidate database. Judging by their Web traffic and registration numbers, the most popular sites are very comprehensive. For example, Monster.com has 75 million account holders worldwide, CVOnline.hu has more than 250,000 registered users across Central and Eastern Europe, and Profession.hu, another popular Hungarian portal, has an average of 50,000 site visits a day, according to their respective websites.

"I see myself facing several hundred Internet sites available that are providing job opportunities. Very few of them are job search engines or sites that are only for working through the Web. The majority of them are like very small recruitment companies," says Pesthy, who used the Internet to look for a management position. In addition to work search engines, there are many networking sites, such as LinkedIn.com or iWiW.hu in Hungary, that strengthen people's contacts by allowing them to build a profile and connect with other professionals and friends for free. Through these portals, letting your networks know you are job seeking is much easier, Pesthy says. With one click, you can send a message that hits 500 people, he adds.

Not only are individuals going online, recruitment companies are as well. Ákos Fátth, marketing specialist at Randstad Hungary (the world's second largest recruitment agency according to its website), says 99% of his applications now come through the Internet, and the only time they accept paper applications is at recruitment fairs. "Nowadays more and more people are looking for jobs on the Internet as a major source, and the other sources are hugely decreasing," Fátth says. "We've almost stopped print advertising. On the candidate side, we prefer online searching and advertising as well." Like most recruitment firms, Randstad maintains its own database of information on more than 50,000 people, in addition to finding potential applicants through job portals, according to Fátth.

Top-level positions often have their own search engines, says Pesthy. The executive search companies rarely advertise their job opportunities on the Web, but they do search for candidates online, through popular databases. One specialized website for

With one click, you can reach hundreds of people.



higher positions is BlueSteps.com, of which Pesthy is a member. It costs \$350 a year for candidates, and is limited to executive position searches.

OPPORTUNITIES IN HUNGARY

THE AVAILABILITY OF THESE Internet sites has given Hungarians greater access to international careers that they would have not had before. "Without these tools or engines, it would be very difficult for someone here to apply for a job in another country, so I think this is a great thing," Pesthy says.

"You can be found by anybody; the possibilities are much, much bigger," says Bence SÁGVÁRI, a managing director at research and consulting company ITHAKA. Not only that, but these websites are helpful because they are free, adds SÁGVÁRI, who also works for the World Internet Project, which studies the effects of the Internet on society.

Using these online tools also makes job searching seem less fruitless, because it gives people the chance to release their information to more companies than with paper CVs like before. Applicants may be contacted for positions that they didn't even apply for because a recruiter saw their information, which was the case for Pesthy. "I don't think it hurts if you are known to these companies," he says.

GETTING CONNECTED

EVEN WITH ALL the new opportunities created as job searching migrates to the Internet, it has not provided as equal a playing field as it seems, because Hungary's Internet penetration is still low, SÁGVÁRI says. In Europe, Hungary sits in the lower third in terms of Internet saturation. Only 45% of Hungarians are using the Web, so these benefits are only relevant to a minority of people, he adds. Furthermore, even though the exposure and access to more postings is advantageous, career searching in Hungary is still reliant on connections. The market is primarily based on close circles and recommendations, SÁGVÁRI says. However, online networking sites like Facebook.com can help build the portfolio of contacts. In Hungary, there are 4.4 million Internet users, and 3.5 million people are registered on iWiW.hu, which shows people are taking advantage of online networking opportunities, SÁGVÁRI adds.

Pesthy also agrees that successful job hunting requires face-to-face contact, and Internet resources shouldn't blindfold people, as "they are not enough." Especially as the candidates seek higher-level positions, the importance of their contacts becomes more apparent. "It looks like there's a huge balloon around the Internet recruitment or job searches,

"The possibilities are much, much bigger."

but as you go higher and higher, it's all about connections," he says.

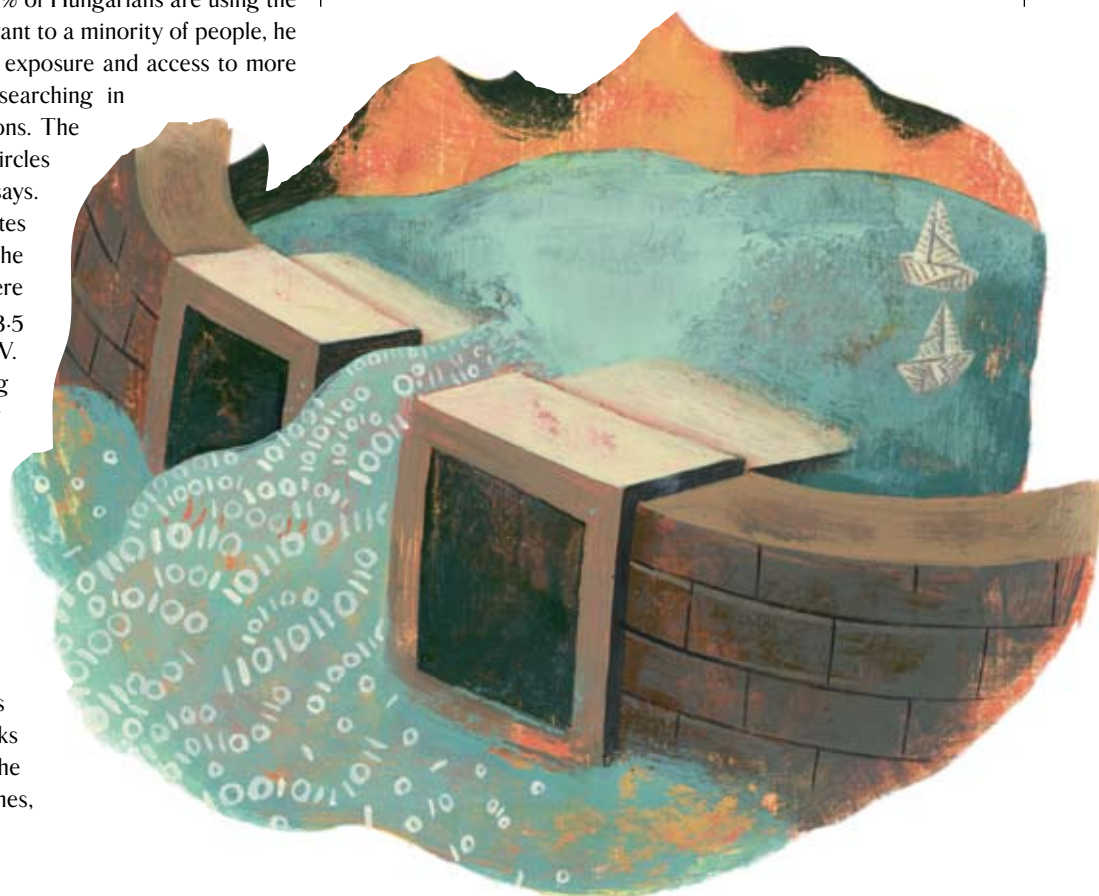
ERRORS AND ADVICE

A COMMON PROBLEM when applying for online positions is that descriptions are not specific enough, and so you may expend the energy to apply to multiple jobs for which you aren't qualified. Striking a balance between being selective and competitive is challenging, Pesthy says. From a hiring perspective,

some of the frequent errors that FÁTH sees are people applying for positions for which they do not fulfill the minimum requirements. Also, they do not attach a formal CV to an application, but type in sentences about themselves instead, FÁTH says. "My general advice would be to apply for the job that they really want to do and are capable of doing, be precise, and be very impressive with the CV, as it gives the first impression which is crucial," he says.

END OF HEADHUNTING?

EVEN WITH THE RESOURCES at applicants' fingertips, FÁTH is confident that traditional recruitment services will not be abandoned, mainly because of their proficiency. "We are experts in offering to our clients the best experienced candidates on the market. I believe we can find much more effective candidates for the right company than HR people of the company, as they are almost always very busy with other tasks," FÁTH says. Also, most human resources professionals "don't have the time to deal with 150 CVs a day," and companies like his help them by narrowing and prescreening candidates, FÁTH says. "We can make the recruitment process faster and more effective." ★



Starting up in a room in Buda

YOUNG PROGRAMMERS USUALLY PLAY IT SAFE

Young Hungarian programmer Zsolt Máslányi (26) says he has no typical workday since he's been working from home for the last eight months. "I get up, have some coffee, and see if the 'house is burning,'" he says of his virtual programming work, sometimes requiring strange hours. "My phone has rung at 3 am to get me online to discuss something," he recalls.

BY DREW LEIFHEIT

SUCH IS THE LIFE of a young Hungarian programmer who's decided to pursue international opportunities while staying put right here in Budapest. Máslányi is the CTO and cofounder of Spreadson Inc., a Hungarian-American start-up microenterprise. Spreadson will be a music service that exploits the free music content available on the Web. Máslányi says the business boils down to making music free and free music profitable – allowing any band to upload their music, get access to millions of new fans, and make money all the while. "Users will get free access to the music, and for musicians, their music will be distributed and they'll receive statistics, be able to organize concerts, and coordinate all kinds of marketing towards their efforts," he reports.

GROWING INTERNET ENTREPRENEURSHIP

ÁKOS MARÓY KNOWS a lot of young Hungarian programmers like Zsolt Máslányi. Maróy is the founder of the Budapest New Technology Meetup Group, a monthly gathering of new tech enthusiasts in Hungary. He says that while quite a lot of them are working for the rest of the world, as Hungary hosts a number of outsourcing enterprises, generally speaking he doesn't think that start-ups like Spreadson are very common. Usually, local programmers are working for the local market. As for how entrepreneurial the average Hungarian programmer is, Maróy has his doubts. "Those in their 20s and 30s might have some good tech ideas and are looking for the possibility to realize them. But



IT is an internationally
exchangable knowledge.

they might not be an entrepreneur or business type, so they have trouble getting the business framework together,” he says. “Lots of people have ideas, so it’s not the scarcity of ideas. Hungary’s not entrepreneur-friendly, just from the legal and administrative standpoints, and there’s no funding if you don’t have a client from the beginning.”

GLOBAL PARTNERSHIPS

ZSOLT MÁSLÁNYI'S BUSINESS partner is Colin Plamondon, a young American who typically jaunts around the world, programming from beaches in Thailand and South America. “We’ve never met in person,” says Máslányi of Plamondon with whom he’s been working for over a year now. The young business associates met in a chat room dedicated to Web developers to help each other out with technical problems; they traded war stories, and the rest is history. “At first we didn’t feel it was necessary, then soon enough everything else became more important than that. Plamondon really had to go back to stay in the US to see through the incorporation process and for networking, while I’m staying put here in Hungary to bring programmers onboard and make sure all is well on the development side.” While Plamondon is more adept in business, Máslányi says that he’s the better programmer. “We thought it might be interesting to capitalize on our personal strengths and weaknesses and our different locations.” Máslányi has assembled a group of Hungarian programmers here in Budapest for Spreadson. Using local IT resources with an American connection could be a match made in heaven. According to Maróy, programming skills are very transferable. “The good thing with IT is that it’s an internationally exchangeable knowledge, not like being a lawyer or an accountant whose knowledge is very hard to transfer,” he explains. “During the boom time these programmers went abroad, so the flexibility is very advantageous.”

SEEKING CLIENTS

BUT FINDING AMERICAN clients may not be so easy for most Hungarians living with their parents and working from home. Maróy knows this firsthand as he’s the founder and CTO of EU Edge LLC, an outsourced software development company catering mainly to US customers from Budapest. “For a guy who goes to school here, he doesn’t have the opportunity to meet Americans – how do you get your clients and get into business relationships with overseas customers?” asks Maróy. “[My business partner and I] have both worked abroad. From just living here, I wouldn’t know how to get business partners either. It’s a question of mobility. Just going to the US and having ‘blind dates’ – I don’t know how that would work.” It did work for the first little joint venture of Máslányi and Plamondon. They helped clients build interactivity into their websites. At that time, they collaborated with a handful of programmers from across the globe. “There was little risk with the site business,” says Máslányi, “but without the other half’s help, things just wouldn’t work. You have to have mutual trust, because if the other party doesn’t do their job the whole thing falls apart.” Work was plentiful for them, but a more



comprehensive, long-term project for a client convinced them that they were just spinning their wheels with their website development business. “The development would have lasted eight months for two programmers, so we started discussions and made a price quote. We came to the conclusion that it was completely different than the quick turnover for our other jobs,” he explains. And in general, the virtual aspect of the business also meant that clients had high demands from a service provider they’d never met. “It seemed that no matter how well-oiled the machine, customers wanted more interaction with us and had doubts – negotiations got really long as to what they were going to get for their money, so the process was long for acquiring new work,” Máslányi says. Now, Máslányi and Plamondon are working on a demo for their webpage and will be meeting with investors in the coming weeks. While they hope to secure \$1 million in investment capital, given the tough economic times, Máslányi believes that Spreadson could get up and running on periodic injections of \$25,000. “Even with smaller chunks of cash we could finance our site’s development for months using Hungarian programmers.”

COST OF HUNGARIAN WORKERS

WHILE THE COST advantages of using Hungarian programmers do exist, Hungary’s position, according to Maróy, is tremulous because of the high cost of social contributions. If we have to compete with Slovakia, Romania or Vietnam, we are not trying to compete on price but on high added value, he says of his own company, EU Edge. “And if you compare outsourcing in Europe to Asia, there is the advantage of having a more similar cultural background, and the time differences are more advantageous – Asia is really on the other side of the planet.” For his part, Máslányi is convinced he and his business partner have a good, forward-thinking concept for distributing unsigned musical artists. “The music industry today hasn’t really changed its business model since the 1930s,” explains Máslányi, “but the technology has changed, especially for distribution, and the record companies aren’t taking advantage of that but trying to clamp down on everyone to retain the old model – so we’re trying to capitalize on this.” ★

Looking for the time to buy

WHAT TRENDS
WILL PRIVATE
EQUITY FOLLOW?

Given that excessive and risky lending by financial institutions was a major contributing factor to the current global economic crisis, it is little wonder that private equity deals in CEE slumped by an estimated 58% in value terms in 2008. But private equity managers – who buy into developing companies in exchange for capital and expertise – are ready to take advantage of lower evaluations and are cautiously hoping for a revival later this year or in 2010. **BY KESTER EDDY**

NOT MANY PEOPLE could get excited about a firm that paints white lines on roads in Poland. But Franz Hoerhager did. “When you could see that some crisis was looming a year ago, we started to look at industries connected to infrastructure projects. We invested into this company in Poland that does something as boring as painting the roads. Now anyone who has driven in Poland may think it [the business] is about building roads, but every road built needs to be painted eventually,” he says.

Hoerhager, executive director of Mezzanine Management, a Vienna-based private equity firm, views such “boring” companies as sure bets, especially in hard times.

“We’ve also invested in a Romanian company that owns quarries and gravel pits. Look, the EU is pouring money into the Balkans for infrastructure projects, and you cannot transport these things long distances. These things should be recession-proof,” he told fellow investors at a session on private equity at the Euromoney CEE conference in Vienna in January.

KEEPING COMPANIES AFLOAT

PRIVATE EQUITY FUNDS, using money from sources as diverse as insurance companies to the personally wealthy, offer developing companies another route to cash and expertise. This may be in exchange for a stake, if not total control, but such funds provide an important alternative to credit, most particularly in a crunch time when banks are demanding a high price for loans, assuming that they are prepared to lend at all. Indeed, in a riposte at some German politicians who had criticized private equity funds as “locusts” in the past, Hoerhager noted that such funds were keeping numerous SMEs in the region afloat. “They will be glad that some of the locusts are back. Indirectly, their companies will benefit,” he said.

But in view of the crisis, what trends private equity will follow in the next 12 months is a matter of much debate. Both Hoerhager and Krisztián Orbán, managing partner of the Budapest-based Oriens Investment Management, believe the crisis means many



Making evaluations in such topsy-turvy conditions is far more difficult.



MARIO ORASCHE

“I wouldn’t focus on a specific sector.”

few months’ time, when everyone realizes that this is actually really bad, and that means for the companies, then I think the evaluations could be super attractive,” he told the conference.

TOPSY-TURVY

BUT WHILE PRICES may be cheap, that may not necessarily result in a rash of deals, warns Henry Potter, a partner with Alpha Associates, a Swiss-based fund specializing in the region. “It’s very volatile. What happened the last time in 2001 when the NASDAQ crashed, was basically that for 18–24 months there were no deals done, or very, very few in CEE. So everyone can sit up here on a stage and say this is the time to buy, this is the year of entry, but if no one is selling, and all the entrepreneurs are sitting tight, there are no deals to be done,” he says.

He admits this time may be different. “Private equity operators the second time around might be a bit braver. Most are freshly loaded with new money, so there certainly isn’t a capital shortage. And some of the entrepreneurs and new companies might be more leveraged this time, and therefore, may not be able to sit it out for so long,” he says. Against this, making evaluations in such topsy-turvy conditions is far more difficult. “I’m hopeful the deal flow will not fall off the cliff like it did last time. It will be very interesting to see what happens,” he says. ★

company owners will be desperate to attract an investor, meaning prices will be low. “I totally share the argument that this is the time of entry,” Orbán says, although the harsh realities may be taking time to sink in, especially in Romania, where entrepreneurs are somewhat “in denial,” he says. “They are still in the phase where Bulgaria and Hungary were in November, when they were saying ‘yes it will hit, but it won’t be as bad as elsewhere.’ I think that in a

FAVORED SECTORS AND COUNTRIES

Franz Hoerhager’s policy on investment into infrastructure is in line with a recent survey, published by ISI DealWatch, which identified health care, infrastructure, energy, and retail as the favored sectors for private equity deals in the CEE region this year. As for locations, nearly one in four respondents selected Poland and Romania as the two countries likely to record the most private equity deals, generally citing the size of the economies and relatively sound macroeconomics. At the other end of the scale, Serbia, despite low valuations and high potential growth, was backed by just 2% of respondents.

Les Nemethy, chief executive officer for Euro-Phoenix, a regional financial advisory firm based in Budapest, was absent from the survey, but concurs with some of its key findings. “I’d say much of the action this year will be in Romania and Poland. As for sectors, food is good, some niches in construction and infrastructure, and alternative energy,” Nemethy says. But he warned that fund managers were more cautious in the downturn. “Probably about one-third have pulled in their horns, just managing their businesses, with two-thirds looking for companies of solid value,” he says.

The survey, which quizzed 30 private equity professionals on the region’s prospects, revealed that despite the global

economic travails – and a slump in deals in 2008 – private equity fund managers remain alert to finding companies offering good potential rewards in return for what the funds offer, namely cash and expertise. Indeed, half of respondents were optimistic that deal activity will begin to pick up during the second half of this year, when some think valuations – and hence the price to be paid by investors – will be at their lowest.

However, such findings do not mean an automatic lifeline is available for the owner-manager of a struggling health care clinic in Bucharest or a Warsaw construction company short of liquidity. “It makes sense that health care is on top of this survey; it still needs a lot of development in this region,” says Mario Orasche, managing partner of Eagle Ventures, a technology investment fund based in Ljubljana (Slovenia). But Orasche, also addressing the Euromoney Vienna conference, questioned whether the result was in many ways dependent on those questioned. He also warned that rather than focusing on a sector, it was essentially the individual companies that attract private equity investors. “I wouldn’t say what sector makes most sense, I wouldn’t focus on a specific sector, but rather how is the [specific] approach of the company? What is it doing to get new revenues?” he said.

Charting excellence

EFQM
HELPS TO
STRENGTHEN
BUSINESS
MODELS

Since 1996, Hungarian business leaders have used a management framework program from the European Foundation for Quality Management, or the EFQM Excellence Model, to implement best practices into their workplaces and to tangibly measure their success. In today's economy, high-achieving businesses need to use the effective principles that this model teaches, says András Háry, EFQM project manager.

BY **MARISA BEAHM**

THE BRUSSELS-BASED PROGRAM, which was created by the presidents of 14 European companies in 1988, is a nonprofit foundation dedicated to sharing what works among successful companies. Today, about 200 businesses in Hungary are part of the EFQM network, which consists of 30,000 organizations in Europe, according to Háry. "It's a tool for top managers," says Háry, who used to work for one of the first Hungarian companies to implement the model.

While Hungary has a strong following of members, it is not as effective as other parts of Europe, Háry says, even though it should be. "We cannot afford not to use best practices, and we can't afford to develop things that have already been developed." The crisis is making people go back to the basics and reconsider their strategies, and this model can help businesses change, he says.

MODELING

LEADERS WHO JOIN EFQM or its Hungarian partner organization, the Association for Excellence, have access to networking and benchmarking opportunities that provide the leading thinking on management structures, according to Háry. They also use the Excellence Model, which gives companies measurable ways to evaluate their business performance and set goals for improvement through a nine-part framework. These steps – which include leadership, policy and strategy, customer relations, and others – are meant to help address a basic challenge among businesses: how to fulfill the needs of different stakeholders, and at the same time satisfy the company and motivate people, Háry says.

"In a nutshell, if you use the elements of the EFQM, you have a better understanding of the whole business process, starting with stakeholders, continuing with business results and the connection between organizational structure and business results," says Andor Paizer, General Motors Powertrain-Hungary plant director.

To measure a company's performance, independent analysts visit the business and produce comprehensive feedback reports, Háry says. Based upon this analysis, the top performing companies are eligible for the EFQM Excellence Award, which recognizes industry leaders who turn strategy into action and continuously improve their organization's performance, according to the EFQM website. General Motors Powertrain-Hungary won an excellence award in 2006 in the "Management by Process and Facts" category.

According to Paizer, EFQM works better than other management programs "because you have a complete view of the business, starting with leadership, ending with key results. (...) You really get a very, very well-designed framework of the business, so you definitely can develop your organization once you work with this model." ★



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Jogpont network

FREE LEGAL
ADVICE FOR
EMPLOYERS AND EMPLOYEES

Hungarian tax, company, and work-safety regulations are extremely complicated. As a result, many small companies don't comply with the law simply because their management is in the dark about the actual requirements. Equally, employees often only have a vague knowledge about their rights and obligations. Therefore, trade union MSzOSz and four Hungarian business organizations joined forces to start Jogpont (Legal point), a nationwide network which gives free legal advice about company, work, and social-welfare problems to employees, employers, and the unemployed alike.

BY RUNA HELLINGA

THE NETWORK STARTED its operations at the beginning of February. Divided into seven regions, Jogpont has 141 support points all over the country, where once a week or every second week a lawyer holds office and gives not just legal but also practical advice. "They explain the law, but they also tell clients which authorities to approach to solve a certain problem and help them to find the right officials. They can tell what the law says about sick leave and holidays for employees, but they also give information about the pitfalls of starting a company or about training possibilities for employees," says Péter Pataky, president of trade union MSzOSz.

Jogpont, which is financed from Hungarian and EU sources, has a budget of Ft 846 million for the coming two years. The idea of establishing the network was born long before last year's October financial crisis, but the economical developments of the last months make an organization like Jogpont more urgent than

ever, says Pataky. "We surely expect that the crisis will result in extra work for our lawyers. Many companies need to save money and are looking for advice about how to do so without immediately firing staff. They have questions about how to reduce work time or about the possibilities to change the collective labor agreement. But the lawyers also get questions from people who have already lost their jobs and are now looking into the possibility of starting something for themselves instead of becoming unemployed," Pataky says.

ENTHUSIASTIC RESPONSE

IN THE FIRST THREE and a half weeks of its existence, Jogpont lawyers handled almost 400 cases. Since the start of the network, there has been an enthusiastic response from all sides, from local governments that offer office space to governmental organizations



It is very hard to keep track of changing laws.



Crisis makes Jogpont more urgent.

like the Secretariat for Equal Opportunities of the Ministry of Social and Family Affairs. “We are in touch with several organizations about cooperation and eventually, we want build up a network of social contacts.”

ÁFEOSz, IPOSz, KISOSz, and OKISz, the four business organizations that are involved in the project, mainly represent small and medium-sized enterprises. “Many of those companies lack the legal basis knowledge needed to run a business, and Hungarian tax law is so complicated and changes so frequently that it is impossible for a small entrepreneur to keep track. That makes it very hard for small companies to fulfill all their legal obligations,” explains György Vadász, co-president of the Hungarian Industry Association OKISz, on the reason why his organization became involved in the project. But Vadász stresses that Jogpont is open to everybody, and able to handle a wide range of questions: “Our services vary from recommendations to parents who don’t know which education would be best for their child, to advice to companies on how to apply for EU subsidies or access micro financing possibilities.”

FRICITION

THE CONCEPT OF FREE LEGAL AID is not new to MSzOSz, which has run a free legal service for its members for many years. “We had lawyers in every region in Hungary. For us, the Jogpont network means a strengthening of that activity. Because our members were used to our service, it is likely that in the beginning they will make out the bulk of the Jogpont customers, certainly in industrial towns where our legal staff was rather strong,” Pataky says, “But that is of course a matter of public relations, and there has been quite a lot of attention from media for the network.”

In one important point, Jogpont differs greatly from the legal network that MSzOSz used to run, as that network only dealt with problems of employees and pensioners, while the Jogpont lawyers will get questions from companies as well. There may be friction in that setup, Pataky acknowledges. After all, companies and employees are not automatically allies, and they can be on

completely opposite sides if it comes to a labor dispute. But he is not so worried about that, as many of the problems in smaller companies actually are the result of ignorance, not of bad will. “If there are disputes about holidays or working conditions, it is often because the company owner really doesn’t know the law,” he says.

But he concedes the possibility that a Jogpont lawyer may get into a conflict of interest if he becomes involved in a labor dispute. “In principle, Jogpont lawyers should not become involved in matters like salary conflicts or dismissals. Those are classical trade union responsibilities that the union should handle. But of course, it is often difficult to draw an exact line between legal and trade union conflicts, and if both parties decide to seek legal advice, a lawyer can end up as an intermediary.”

POOR CLIENTS

EACH OF THE ORGANIZATIONS involved is responsible for the daily management of one or two of the seven regions of Jogpont, Pataky explains. “In the beginning, some of them clearly had not realized that that also meant they would have to open their offices for the poorest, most uneducated part of the population, people who go to a lawyer if they have problems with pensions, illness, unemployment, or social security. Not everybody was happy with the idea that those people would turn to their office.” On the other hand, he says, poorer customers can be scared off if they have to enter a fancy office building. In larger places like Budapest or Győr, where there are more support points, that should not present a problem anyway, because in those places, one lawyer probably will specialize in company law, while another deals mainly with social problems. But in smaller places, it is of course important that all clients feel comfortable enough to enter the Jogpont office.

“Time will show how the cooperation works,” says Pataky. “For all involved, this is a new experience, so surely problems will turn up for which we need to find a solution. We have regular consultations with our partners. And the main thing is that we respect each other and are open to discuss problems and look for practical solutions when necessary.” ★

Building families

SOS CHILDREN'S VILLAGES PROVIDE STABILITY

Since the first Hungarian SOS Children's Village welcomed its residents in 1986, the nonprofit has continuously provided constant, innovative care for disadvantaged children. Today, it has placed more than 300 youths into dependable family units when their original circumstances were not as auspicious. The program continues to expand locally, and Kecskemét village leaders recently opened their first crisis center to serve children in urgent, temporary situations.

BY MARISA BEAHM

DESPITE ECONOMIC TURMOIL increasing the challenge of fundraising, the organizers of Hungary's villages still work tirelessly for their mission: allowing children to lead healthy and happy lives.

VILLAGE LIFE

AT HOME ON a Friday afternoon, a young girl and boy sit cross-legged in front of a cartoon-blasting television, vying for the best view of the screen. Their older brother unwinds garland from their Christmas tree, tiptoeing around his youngest sibling's crib, careful not to bump it. Meanwhile, their mother and grandmother watch over the children and chat as they iron freshly washed laundry.

What sets this ubiquitous familial scene apart is that the children's mother, Piroska Török, is not the biological mother of

the kids in her home, nor are they all related. She is a professional foster parent for six children, four of which are siblings. Also, their house is not in a typical neighborhood, but it is in the Kecskemét SOS Children's Village, which contains 12 cottage-styled homes, all which are headed by devoted foster parents. Creating a comfortable family life for children and young adults is the aim of all of Hungary's SOS programs, which includes three villages and three facilities that serve youths aged 18–24.

"The village is beautiful," says Emese Faragó, a 15-year-old from Budapest. She moved to the Kecskemét village three years ago, because her parents could no longer care for her due to their health complications. She likes her life there because it's family-based and small, Faragó says. Also, she's enjoyed the trips she's taken with SOS, like one to Transylvania to live with a "grandma" and learn about country life. Her time in the village has inspired her to go into social work and travel to other countries. "I want to help poor people," she says.



"Food, school, and clothing always have the priority."

“We have less money for developing activities.”



SOS MOTHERS

TÖRÖK HAS WORKED at the Kecskemét village for 17 years, has been an SOS mother for ten years, and has raised nine children. Like all SOS parents – who are typically women, although Hungary just hired its first SOS couple – she underwent two years of training for her position, which included serving as an assistant to other SOS mothers. This rigorous training ensures that candidates are physically and psychologically ready for the job, says Attila Nagy, a psychologist who works at the village three times a week. The parents’ jobs can be extremely exhausting and challenging, especially because they care for up to eight children at once, he says. These mothers are the true therapists, Nagy adds, because it is through their communication with the children that the kids are able to form their own identities.

Even through difficult times, Török – who just recently had to say goodbye to three of her children when they returned to their biological mother – says it’s the success of the kids that keeps her inspired. For example, her 17-year-old foster son came to the village when he was six. He had been extremely isolated and had never even gone into shops, Török recalls. Experts told her he wouldn’t be able to lead an independent life, but now he excels at difficult computer science courses and serves as a Boy Scout leader.

IT TAKES A VILLAGE

IN ADDITION TO GIVING underprivileged children stability, SOS tries to help them stay integrated with the outside world. Children who have living biological parents are required to stay in touch with them; this eases the transition should the kids return to live with their parents. Some see their families on a regular basis too, such as Faragó, who travels monthly to Budapest.

All the village children attend public school, and their neighborhood is open to the community, says Csaba Tóth, director of the Kecskemét village. “We really try to help them reintegrate,” he adds. Still, Tóth acknowledges that the family-based care and close-knit community can be a source of risk as the “system is a bit overprotective, because the world is not like that,” he says.

The village will also have more contact with the outside community through its crisis center, which opened at the beginning of January. It is housed in a family home in Kecskemét, which was renovated using donations from local businesses. The government usually runs crisis centers, but this center is significant because the Hungarian authorities contracted SOS to operate it, Tóth says. It’s the first time Hungary’s Children’s Villages have taken

over a governmental task, he adds. The crisis center will have a housemother named Csilla Mihályik. This parent of two grown children says she decided to do this, because she wanted to care for other youth and have the chance to spread love to many more kids.

FUNDRAISING

THE HUNGARIAN SOS organization has an annual operation budget of €2.6 million that covers all child-related expenses for the villages and youth facilities. These funds come from government subsidies, international organization subsidies, and local fundraising like the 1% campaign. Contributions, especially on the international level, are down because of the financial crisis, according to Bea Tóth, SOS public relations and fundraising coordinator. As a result, SOS mothers have less money for their family budgets. They must use cars less and must conserve on heating, especially in community rooms, says SOS youth care coordinator Gyöngyvér Magyar. “Unfortunately, we have less money for developing activities, because food, school, and clothing always have the priority,” she adds.

“After realizing the economical crisis, we are working hard to find the areas in our budget to cut our total expenditures dramatically in order to keep the same quality level of the SOS children’s lives,” Tóth says. This year, the organization is putting special emphasis on collecting donations through the 1% tax campaign. ★

VILLAGES IN 132 COUNTRIES

With a desire to help children orphaned by World War II, Austrian Hermann Gmeiner launched the SOS organization in 1949. Today, SOS villages still provide family-based, long-term care for orphans or children who cannot live with their biological parents. Internationally, the SOS Children’s Villages has programs in 132 countries and serves 1.1 million people, according to the organization’s website.

When children come to a village, they are placed in a home run by a professional foster parent, which is also home to other girls and boys of varying ages who become like brothers and sisters to one another. In these family units, siblings are never separated, and all children attend public schools. On average, the villages usually consist of 10–20 houses. SOS also operates youth facilities, which are more independent living environments for 18–24 year olds.

Alternative solutions

According to his promise made in the special session of Parliament on January 29, in the middle of February the prime minister presented his program described as the one that was supposed to manage the crisis. However, the plan of the prime minister, who had been playing for time for more than four months, was received with divided success.

BY TAMÁS KERN, SZÁZADVÉG INSTITUTE

WHILE PARTICIPANTS of the market and the two smaller opposition parties did not deny that the main direction of the program was right, they also made clear that the outlined measures are far too halfhearted and insufficient to manage the situation as it is. Candidly or not, they did not forgive Gyurcsány for another delay in passing decisions that are able to manage the crisis.

At the same time, the strongest opposition party called the head of government socially insensitive again. Fidesz said Gyurcsány, not unlike in 2006, wants to put the

burden of all the negative consequences of the economic policy that was botched over the past years on society. But is it not that the elite of the Hungarian political class is merely fudging around, guided by their self-interest? How much longer can they go on like that without any particular consequence?

All of this nonsensical exchange is happening at a time when the contraction of the Hungarian economy has reached tragic proportions (4%), the exchange rate of the forint is dropping continuously, and the number of unemployed is growing faster and faster at an increasing speed day after day. The time for clear speech has come. The Hungarian economy is in such a deep crisis (and will certainly remain there for the next years) that tackling the problem cannot be put off any longer. The government and the opposition should make clear to society that 'putting things in order' will demand perhaps even more sacrifice from citizens than was required during the change of political regime.

However, this sacrifice cannot be single-sided. The political elite should outline that they are also able to surrender power and take political responsibility in exchange for the sacrifices. By stepping down from his position as prime minister, Gyurcsány can create the condition for

implementing the economic-political consolidation without any particular trouble. At the same time, the leadership of Fidesz should make sure that, in exchange for the 'head' of Gyurcsány, they will not impede the process of consolidation by referring to populist arguments.

Still, we should have no illusions. Quite clearly, the prime minister wants to stay in government until 2010, and the opposition cannot support the 'repeated attempts of a discredited politician.' Many can already see that the search by Gyurcsány for a way out has failed. With its new program, the government is unable to deliver the most important objectives that were set and also properly communicated: increasing competitiveness and preserving the level of employment. But the intentions in the background of the program can be identified easily: to secure political survival at least until the European parliamentary elections.

The concept of the Reform Alliance is the only ray of hope. Some points (e.g. the reform of local governments) are not sufficiently developed, some other proposals (e.g. relaxing the progression of the tax regime) are socially questionable, but it is still the only public program that provides a rationalistic way out. The question is, who could implement it? ★



THE REFORM ALLIANCE

IT'S A COLD WIND THAT BLOWS...

With an icy wind blowing ominously from Russia and Ukraine across the the countries of Middle Central Europe and the Balkans, an even colder wind - a type of Gazdasági Mistral is - sweeping over the Carpathian Basin, making its presence felt in all quarters of the Hungarian economy!

Rarely does a day pass without Hungarian TV channels spelling out in graphic form, the increasing number of employees that have been made redundant, particularly amongst the Multinationals and larger Hungarian companies.

Of course, some of us who have been around for a while have seen this before – maybe not quite as severe - but certainly exhibiting the same symptoms. Irrespective of the rights and wrongs, the culprits and the victims, the fall guys and the lucky reprobates, there is one heck of a situation going down here!

It seems that the game plan for large companies is fairly well mapped out, even if the method of execution varies. Analyze your costs and reduce overheads (which usually means cuts in the number of people you employ). Tighten up the purse strings, cut back on expenses and bonuses, impose even tougher targets on sales personnel, and commence a program of rationalization by selling off or closing unprofitable operations (they can always be bought back later at a bargain price if the new buyer fails to turns the business around).

Such steps, if sufficiently tough and public enough, are warmly applauded by the banks, who, after much wrangling and cajoling, agree to provide a financial shelter until the better times arrive.

But what of the smaller businesses whose ability to manoeuver is much more limited and where a call or letter from the bank can determine with the stroke of a pen whether the business has a future or not.

Fox Autorent is, by its very nature, a small company employing 35 people on a full - time basis to handle its fleet of approximately 400 cars in the winter and 600+ in the summer. The model on which the business is based is relatively simple. Buy cars at the lowest price possible; rent them out for as much as possible; sell them for as much as possible. But heyho! The model has suddenly and possibly irreversibly changed! Car importers are reluctant to order stocks of cars which they may not be able to sell. Car dealers are wringing their hands at the large number of used cars in their lots. Buyers are taking a more pragmatic view about the timing of their car replacement.

On the business side, leasing charges are oscillating wildly as currencies fluctuate, and the Hungarian government is reinforcing its tax structures for rental and leasing vehicles,

adding insult to injury. Suddenly, short-term rental has become a lot more attractive because of its flexibility for businesses who need to react quickly to business fluctuations. With only one phone call to Fox Autorent, the contract can be discontinued or the fleet extended at short notice..

So, the way forward for Fox Autorent is to review not only its costs, but also its strategies for the future. Currently we are undertaking a major review of the best ways to supply and price our services to attract new customers as well as retain our present clientele. This will determine the course of our future growth - providing we get it right! Decisions are made less by instincts and more by hard data, business planning and reorganization. We have to become more aggressive in the marketplace. Don't be surprised if you get a call from our Fox Autorent sales team to tell you about our new prices and services!

The cold wind will not blow forever, but as with any chill, those who suffer the least discomfort are the ones who wrap up warmly. At Fox Autorent, our coats are on, our attentions focused and our targets identified!

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Reform ideas

The intentions of the reform program presented by the prime minister covered three dimensions. The strongest part is a classical tax reform with no impact on the budget equilibrium. It was accompanied by some reform measures in the social benefit system. The third issue was a pension reform in order to keep long-term sustainability. BY LÁSZLÓ AKAR, GKI ECONOMIC RESEARCH CO.

THE PRESENTATION opened the door for further discussions and fine-tuning within and outside of Parliament. That is understandable, as the minority government needs the support of at least one other party, and obviously social partners intend to influence the final decisions as well. So the current proposals are not necessarily the final versions, but reference points for further discussions (and likely political bargaining).

The tax reform package is mainly the implementation of the old policy advisements to diminish the tax burden on employment, to increase the tax burden on consumption, and to broaden the tax base. The 3% VAT increase accompanied by a 4–7% excise tax generates the needed funds for the 5% cuts in social security contribution rates. In addition, the personal income tax system (PIT) will also be eased. To finance the changes, some tax preferences will be eliminated or diminished. The big bulk of social transfers will be part of the personal income declaration, although they are not bearing tax, they are increasing that part of the revenue which is taxed by the higher rate. Restaurant tickets, holiday vouchers, etc. will somehow be taxed as well. The 16% profit tax and the 4% additional profit tax will be unified into one 19% profit tax (with fewer preferences).

The final effect of the measures is a 1% of GDP income redistribution from households to companies. Taking into account the economic crisis and the relatively better income position of households (the drop of real income is less than the drop of GDP in 2009, even after these measures), it is a fair move. Unfortunately, only

a small part of the reduction takes place in 2009 (until January, the cut in contribution rates is valid only up to the double minimum wage level), so the help to the business sector comes a bit late. But it can still help to save jobs. The measures should be especially welcomed from a structural viewpoint, as the problems resulting from the extremely high tax wedge (the second-highest in the EU) and the more than 70% marginal tax wedge below average wage will be diminished significantly. It might have a whitening effect on gray employment, as future official wages for the big majority of employees can be increased without resulting in an extremely high tax burden.

The measures in the social transfer system can be interpreted as small but rational. The incorporation of the transfers into PIT means that for higher-income families these transfers will be slightly diminished.

The announced reform measures in the pension system can really help to keep it sustainable. The increase of the retirement age from 62 to 65 (implemented gradually from 2014 until 2024), the tightening of the indexation mechanism, and the elimination of the 13th-month pension for the new pensioners should be treated positively from a budgetary viewpoint.

Generally, the package contains good steps in the right direction, but the size is limited. The management of this crisis needs other government actions as well. The prime minister also suggested other reform measures, some which concern the local government and the election systems. But the chances that these will be realized are rather low, as they need a 2/3 majority in Parliament. ★



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system can
really help
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LOCAL FINANCES

The finances of Hungary's local councils could endanger the aims of the central government's fiscal policy, among them meeting the Maastricht criteria and maintaining long-term budget stability, according to a study by the State Audit Office Research Institute. The study criticizes the current system for failing to offer incentives to local councils to exercise fiscal responsibility, rather preferring "freeloaders", and says short-term measures must be taken immediately. Hungary's local councils ran up a Ft 90 billion deficit in 2008, according to preliminary data. It was Ft 157 billion in 2006, Ft 54 billion in 2007, and is expected to be Ft 134 billion this year. ★



CARS SNAPPED UP

Car dealers in EU countries where governments are offering incentives to buy smaller cars are snapping up vehicles with 1.6-liter engines or below in Hungary, as their own stocks have been depleted, business daily *Világgazdaság* reported. Foreign dealers from France, Germany, Austria, Italy and Belgium are also taking advantage of the forint's recent plunge against the euro. Though several car makers have asked or even prohibited dealers from selling cars to foreign companies, EU rules require dealers to buy just 30% of their stock in the country in which they are based. ★

105,000 JOBS TO GO IN 2009

Hungary's economy is expected to shed 105,000 jobs in 2009, of which 60% will be caused by falling demand on export markets, Anna Adamecz, department head at Ecostat, told MTI. Most jobs are likely to be lost in labor-intensive industries, such as the construction sector, the machinery industry and the retail sector, Adamecz said. The vehicle-manufacturing sector could lose 12,000 jobs this year, the machinery industry 12,000 and the construction sector 10,000. The construction industry, real estate brokerage and economic services are each expected to make 10,000 workers redundant. Around 8,000 employees will be dismissed in the retail sector and 5,000 from wholesale businesses. Agriculture, catering and transportation will lay off 6,000 people each, said Ecostat.

Last month, several banks announced staff cuts, among them Raiffeisen Bank (315 people), OTP Bank (500), and CIB (360). Hungary's central bank MNB will lay off 91 employees. Mass layoffs were also announced by particleboard maker



Kronospan (120), oil and gas company MOL (220), Diósgyőr Steel Works (878), label stock maker UPM-Raflatac (31), automotive parts company Delphi, household appliances giant Electrolux (110), electronics company Flextronics (400), Tyco Electronics (330), Euro Wire and Cable Services (174), electronics company Sanmina-SCI (550), and particleboard manufacturer Falco Forgacslopogyarto. Chemicals company BorsodChem suspended planned mass layoffs after reaching an agreement in principle with the government, the company announced, without going into details. BorsodChem planned to lay off 550 workers. ★

STILL SOME INVESTMENTS COMING IN

German chip maker Infineon Technologies is expanding capacity at its plant near Budapest in a €17 million project. The expansion will create 250 new jobs by 2012. The investment is Infineon's fourth in Hungary, which shows the company is in the country for the long term. Infineon's plant in Hungary makes standard power modules used in wind turbines and solar inverters for photovoltaic systems, as well as in locomotive drives, streetcars, manufacturing systems, escalators and elevators.

The Hungarian unit of Prague-based large-format printing company Eclipse marked the start of a Ft 500 million investment in new machinery at its base in Edelény. EU development funding will cover Ft 150 billion of the costs.

The former Hungarian unit of German motor-home maker Knaus Tabbert will restart production thanks to a cash injection from its new owner, Dutch investment group. Production at Hungary's Knaus shut down in September last year.

URC, a member of the URECO group, plans to build a Ft 500 million waste disposal base for building materials at an old meat packing plant in SW Hungary. ★





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CEE IN REVIEW



CENTRAL BANKS COORDINATE

The central banks of the Czech Republic, Hungary, Poland and Romania have issued statements, held press conferences, or have given interviews on February 23 with the coordinated and clear aim to shore up the region's beaten-down currencies. Practically all statements carried the same message: the recent sell-off in CEE currencies has been overdone and does not reflect economic fundamentals; national banks are prepared to counteract any attempts to destabilize the exchange rates; and, although a certain adjustment of the currencies in the region might indeed be necessary, the excessive depreciation of local currencies can

lead to destabilization in the economy and must be avoided. "The intensification of exchanging information and coordination between CEE central banks may support their effectiveness," said Governor Slawomir Skrzypek of the Central Bank of Poland. (*Bursa*) ★

SLOVENIA-CROATIA BORDER DISPUTE HEATS UP

For years, the border dispute between Slovenia and Croatia has been a source of off-and-on tension between the two countries. But in the wake of Slovenia's decision to block Croatia's EU accession talks and a recent initiative to ask Finnish diplomat and Nobel laureate Martti Ahtisaari to mediate, it looks like it has suddenly become a European matter. The border dispute has dragged on since Slovenia and Croatia became independent. Much of the debate focuses on the maritime border in the Bay of Piran, which was never defined in Yugoslav times. Parts of the land's border are also disputed, including three small settlements in Istria, some territory in eastern Slovenia, and the exact location of some border crossings, where Croatia built on territory claimed by both countries. The 2001 Drnovšek-Racan Agreement, negotiated by the then-prime ministers of both countries, attempted to settle the dispute by giving most of the disputed land territory to Croatia, while Slovenia would get most of the Bay of Piran, along with access to international waters. However, the plan was rejected by the Croatian parliament. (*Slovenia Times*) ★

ROMANIA ALSO CONSIDERING IMF ASSISTANCE

Romanian Finance Minister Gheorghe Pogea, in his strongest comments to date on the likelihood of the country seeking €6–10 billion in IMF cash to aid its economy, said a protective IMF/EU deal may be hard to avoid. The aid could help shore up jittery market sentiment and avert a potential financing crisis stemming from Romania's high dependence on foreign cash. Many economists believe Romania is next in line to seek EU/IMF help in deals similar to those sought last year by Hungary and Latvia as it struggles to plug its current account deficit and slash a fiscal shortfall. In a sharp reversal of fortune, Romania has shifted from being the fastest-growing EU member last year to one seen as the most economically vulnerable, largely due to worries over its ability to finance its current account deficit. Market concerns about Romania's ability to finance its trade gap and current spending weakened the leu currency to record lows against the euro last month and wiped out 80% of the stock exchange's value since the start of 2007. (*Nine o'clock*) ★



EU AND WESTERN BALKANS

The EU Czech presidency warned the economic crisis would slow accession of new EU members, and specifically Montenegro's candidacy. The announcement was made by Karel Schwarzenberg, Czech foreign minister, who said that the EU Council of Ministers session had not agreed to accept Montenegro's candidacy. Schwarzenberg said "there was a time when the EU looked forward to all such requests for candidacy, but now there is a certain reservation." (*Beta*) ★

SERBIA MIGHT SEEK EXTRA IMF FUNDING

Serbia will seek \$2 billion more from the IMF to cope with the impact of the global crisis, according to Prime Minister Mirko Cvetkovic. The country also hopes to secure a separate €500 million loan from the EU as well as \$388 million in World Bank financing to build a major highway. Talks with the global lender can start after the first quarter of the year when the government

will have a clearer picture of the economic situation, radio station B92 quoted Jurij Bajec, an advisor to Cvetkovic, as saying. In January, the IMF board already endorsed a \$512 million standby agreement with Serbia. The government's latest estimate is that Serbia's economy will grow by only 0.5% this year. (*B92*) ★



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Gaining ground

AMERICAN FOOTBALL'S POPULARITY ON THE RISE

Even when living outside the US, the fervor of American football fans is never relegated to the sidelines. Instead, they become athletic ambassadors, spreading their passion for pigskin worldwide. Across Hungary, these fanatics of all nationalities endure sleep deprivation to watch overseas games – or put their own bodies on the line while playing for one of Hungary’s 35 teams. Four years after the first Hungarian championship was held, the sport’s popularity only seems to be swelling, showing no timeouts in sight for this country’s new pastime.

BY MARISA BEAHM

ON A SUNDAY NIGHT, T.G.I. Friday’s is teeming with vibrant sport fans eagerly awaiting the night’s game. With the smell of hot wings, ribs, and beer wafting through the room, the AmCham Super Bowl party could be held anywhere in the US, except that it’s already midnight and kickoff is still a long way off. While the Budapest-based crowd mildly complains about having to work the following morning, once the game begins, they all remain firmly affixed to their seats to see the Pittsburgh Steelers take on the Arizona Cardinals.

Losing sleep for the love of the game is the standard practice of football fans abroad. Gavin Bray, originally from Philadelphia, regularly waits up until 2:30 am to watch his team, the Philadelphia Eagles, compete in games that often last until 5:30 am. This “brutal” bedtime is only made worse if his team loses, Bray says. He, like many fans, watches the games on Slingbox,

a device that connects to a TV and streams its contents through the Internet, so he can watch the game live on his computer. Even though he doesn’t have a Slingbox, John Gerencsér, who’s originally from Virginia, follows his teams play-by-play through the ESPN website. He’s even traveled all the way to London to watch two NFL teams, the New Orleans Saints and San Diego Chargers, compete where there were lots of American fans, he says. Before he could watch the games on Hungarian television or the Internet, Jeff Taylor, an Oakland Raiders fan, would watch the games at Budapest’s former American Club, which aired the games on the Armed Forces Network. Taylor would come and watch multiple games on the weekend and stay to the bitter end, so late that he’d have to lock up the club on his own. “I could never understand how people left in the third quarter,” Taylor says. “Where’s your commitment?”

“Football is a good match for the Hungarian mind-set.”



HUNGARY'S TEAMS

DURING HIS TENURE at the American Club, Taylor was just a “highly motivated fan.” That was until he decided to join a team and became a highly motivated player. He became a competitor for the Budapest Wolves, the first of the current teams in Hungary. Later he switched to a different team, now called the Budapest Titans, where he plays quarterback, the “greatest post in sports, because it bears the greatest responsibility,” Taylor says. “There’s no loss that the quarterback doesn’t believe is his fault.” Taylor, who’s 40, says most of Hungary’s players are in their 20s, which differentiates this league from its US counterparts. “By age 22, most American men stop playing football, but that’s when most Hungarians start,” Taylor says. “Teams have longevity here ... they only stop because of injuries.” Matthew Felten, a Chicago native who is joining the Wolves this fall, jokes that he wants to play so he can “hit people.” But more than the aggressive release, he was excited by the opportunity to play football again and surprised that the chance arose in Hungary. “I came here for med school, and it was a bonus of extra fun,” he says.

While the teams have some American players who grew up with the game, like Taylor and Felten, they are mostly made up of Hungarian players who are very skilled, says Lee Hlavka, The Budapest Wolves head coach from Wisconsin. “They are very talented. People would be surprised at seeing them play and would have a hard time realizing they never played in the US,” Hlavka says. The local teams have some sponsors, but most of the expenses are paid through player fees. “We really have to watch every cent we spend, because it comes out of the players’ pockets,” says Márton Iványi, a former player and now the Wolves’ PR manager.

GAINING POPULARITY

THERE ARE A FEW main reasons why playing football in Hungary has grown in popularity, according to Taylor. First, Hungarian soccer is of poor quality, since there are issues with the facilities and recruiting. Also, football is more inclusive than other sports and “has a place for guys of every body size,” Taylor explains. “It is a chance for the big muscle-head guys to play something that’s big, exciting, and emotionally packed.” It also has positions for the small and fast, he adds. Furthermore, being a player “comes with a certain cache,” because the equipment looks cool, he jokes.

Iványi agrees with Taylor’s assessment that the state of Hungarian soccer helps football’s popularity, and adds that it’s also getting noticed because of heavy media attention, and because Hungarians can connect with it. “There are about a dozen people in the Pro Football Hall of Fame with Hungarian origins, so I guess football is a good match for the Hungarian mind-set.” Personally, Iványi likes it because it’s a tactically complex game with a strong

“Football is the ultimate contact sport.”



HISTORY OF FOOTBALL IN HUNGARY

The advent of American football in Hungary was in the early 1990s when two Americans started football teams, the Budapest Starforce and the Budapest Lions, which eventually merged and later changed its name to the Budapest Cowboys. It disbanded in 2000 due to financial difficulties and lack of support.

With renewed interest driven by the broadcast of the Super Bowl in Hungary in 2004, some of the former Cowboys and some fresh-blooded football fans formed the Dirty Dogs, which later changed its name to the Budapest Wolves. After the Wolves, teams started forming all across Hungary, along with coinciding cheerleading squads. In 2005, the first Hungarian Championship with the Hungarian American Football League was organized by MAFSz, the Hungarian Association of American Football Teams.

Today, Hungary has about 35 teams – which includes division I, division II, a women’s team, and the junior league for youth aged 14–18 – who compete against one another and/or go up against neighboring countries through organizations like the Central European Football League.

physical side. “Football is the ultimate contact sport. I have always been playing ball games and doing martial arts. In football I can find everything I love in those at once.”

GAMES IN BUDAPEST

ONE OF THE CHALLENGES of catching a Hungarian league game is that teams like the Wolves don’t have a home field, but play at multiple locations, Iványi says. The Wolves have filled the Margaret Island Athletic Center stadium, and their largest number of spectators was 5,000 at a game in the Bozsik József Stadium in 2005. The league also plays at Építők Stadium in Népliget, which was the Wolves’ home field for about two years, and the Budapesti Vasutas Sport Club Stadium, where Hungarian Bowl games are played. Since American football is a new sport to many Hungarians, the games include an educational component. The league has a number of live announcers who provide a combination of TV commentary, raw facts, and an explanation of what is happening in the game, Taylor says. ★

András Török's Budapest

SEVEN (EIGHT) CAFÉS THAT OPENED SINCE 2000

THE NEW ERA of traditional cafés started in 2000 with the reopening of Café Centrál. Since then, a lot of new places, including several chain cafés, opened in Budapest. The best and the nicest (preferably both):

CAFÉ FARGER

The café, named after owners Edit Farsang and husband John Gerencsér, opened in 2004 and soon became immensely popular. There are sandwiches, salads, excellent coffee, fresh cookies, and a great selection of Hungarian and foreign weeklies and monthlies. On weekdays it opens at 7am, a real breakfast place (V. Zoltán u. 18)

SPINOZA HOUSE

This is a café, restaurant, and small cabaret, owned by a Hungarian lady who spent decades in Holland. Originally, it focused on small-scale events of Dutch, Hungarian, and Jewish interest – the first was gradually omitted. This is where the monthly ****Budapest**** is edited, every first Tuesday of the month. (VII. Dob u. 15)

TRANZIT ART CAFÉ

This former long-distance bus station from 1964 closed in the early 1990s and was then nicely restored in 2004. It hosts an evocative mosaic which relates to horses and transport, and even the original “cashier” and “office” signs were kept. Businesswoman and reservation crusader Orsolya Egri probably lost lots of money trying to realize her dream of a comfortable café that combines reasonable prices with high-profile cultural programs. (XI. corner of Bukarest u./Kosztolányi tér)

NEW YORK CAFÉ

Originally opened in 1894, this soon became the classic literary café. It blossomed under changing proprietors until 1949, when it was closed. It reopened in 1954, was frequently renamed, and closed again in the late 1990s. It reopened in 2006, completely renovated,

SOMETHING NEW: CAFÉ SZABADSÁG

This pleasant café opened last month as the newest member of recreated old grand cafés. The iconoclastic womanizer and genius Endre Ady (1878-1919) wrote a very famous poem here, so his likeness is sitting at a small table. There are also a few dozen ultra low-quality oil paintings of Budapest. Still, it is a welcome addition to Leopold Town; we want more of it. (Aulich u. 8, Bp V)



SOMETHING OLD: THE OUTLINES OF THE KREMLIN

The elegant block on the corner of V. Kossuth Lajos u. and Semmelweis u. originally housed the club of the landed gentry. After World War II, it became the headquarters of the largest political party and in the late 1960s, the House of Soviet Culture was established there. It was then they built a large neon sign with the shape of the Kremlin on the top of the roof. In the 1990s, the radically anti-communist World Alliance of Hungarians moved in, but the steel structure that held the neon lights is still there: with the clearly recognizable silhouette, seen from Magyar utca.



but is now part of a luxury Italian hotel and not of Budapest. It is glitzy, unique, and touristy. (VII. Erzsébet körút 9-11)

CALLAS BAR AND CAFÉ

The opening of this large and super-elegant café in 2006 heralded a new era for Budapest. David Collins, a London designer, created a place both traditional and trendy. He insisted on certain expensive materials: Edelman leather, Turkish marble for the floor, and coconut wood for the service counter. It will take years until service is as memorable as the space. (VI. Andrassy út 20)

GERLÓCZY

It is a cross between a Parisian bistro and a regular Budapest eatery. It attracts not particularly well-off academics, lower- and middle-class neighborhood locals, city council members, businesspeople, diplomats, elderly people celebrating their silver anniversary. Service is attentive and nothing is naff, except for maybe the chandeliers. (V. Gerlóczy u. 1)

ELSŐ PESTI RÉTESHÁZ

We reported its arrival a little over a year ago. The place is still unbelievable, a never boring blend of trendy and traditional Hungary. There is an elegant part, a café part, and a provincial peasant home-style part. Many menu items include strudel; sweet, sour, or bitter versions. It often seems deserted, so let's keep our fingers crossed; Budapest needs that great, original place. (V. Október 6. u. 22)

Knowledge and beauty in total harmony

BlackBerry Bold 9000 is one of the most exclusive smartphones. Its appearance already irresistibly attracts appreciative and envious glances: the black and silver palm-sized casing and the skin-like surface of the back conveys a calm, settled elegance with no unnecessary frills. BlackBerry Bold 9000 is the mobile for confident, intelligent businessmen who do not see life as a struggle, but rather as a series of exciting tasks and challenges and unique adventures.

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Though the device mainly appeals to businessmen who mail and browse a lot, BlackBerry Bold 9000 is much more than a simple tool: thanks to its integrated navigation, the owner will never get into difficulties on the roads, and even whole films can be watched in excellent quality on the high resolution crystal clear display.

BlackBerry Bold 9000 is available at Pannon from 120,000 HUF.

www.pannon.hu



Costes

A FOREIGN CHEF TOUCHED
BY THE LOCAL ENVIRONMENT

DINING GUIDE

The renewed establishment of Costes exemplifies very good taste. From the showcases, the spaces, the dimensions, the lights, the décor, to even the uniforms of the staff, it all bears witness to the attention that has been paid to detail.

BY KATE CARPETS

The menu is brief but impressive, and quality ingredients are found in each dish. My waiter confirms this by saying all of their ingredients are imported from France. After we select our food from the menu, we lean back in our chairs and enjoy a round, silky appetizer, which is a tomato-flavored, refreshing puree with a hint of olive.

For an introduction to the cuisine, we get the foie gras mille-feuille, with green apple granita and caramelized goat cheese. The “mille-feuille” in this combination contains green apple slices layered between goose liver slices, all which are chopped extremely thin. The duo pairing complements each other excellently, both in texture and taste. The thin goat cheese melted on top of the cake-shaped creation holds it all together, its sweetness emphasizing the tartness of the apples.

Our next course is eggs Benedict with crunchy dumplings and porcini, served in a beautiful white porcelain dish. It contains dumplings fried to golden yellow, crisp asparagus heads, and light brown porcini cream. On top of this delectable combination sits an egg that was expertly boiled at 55-60°C for half an hour, sprinkled with a few slices of porcini mushrooms. On the side of the plate is a slender slice of toast with hair-thin selections of Iberian ham and chorizo sausage. It seems as though someone is trying to recreate the traditional ‘dumpling and eggs’ meal, and although we’ll never know for sure, perhaps we have finally found a foreign chef who has been inspired by his local environment.

Next it is the main course, consisting of tender pigeon breast with roasted duck liver and caramelized kohlrabi and salmis sauce. The pigeon breast is outstanding, although by nature its meat is bit rigid and a tad dry, but the caramelized round kohlrabi and the similarly shaped tender duck liver slices are heavenly. The salmis is a special treat, as Costes is perhaps the only place in Eastern Europe where I have seen it made. The roasted and sliced meat is reheated with its own juices with some goose or duck liver added. It may appear a little dark at first sight, but this is the way it should be.

Although I do not ask for dessert, I still get some on the house. A triple composition arrives on an elegant black plate: a bite of dark chocolate mousse, a vanilla macaroon, and a lemon cake. All three are in a class of their own kind; and the macaroon is the standout, proving the dessert can be perfect so far away from its original homeland.

The young Portuguese chef certainly knows something. In addition to employing the technologies of enlightened, modern cuisine in a faultless manner, he orders pricy ingredients from abroad without compromise, while at the same time catering to the local palate. ★

Dining Guide examines the quality and level of ingredients, technologies and creativity of the kitchen, ambiance, presentation, service, and the relation between enjoyability and price level, all according to professional standards. Based on these criteria, the restaurant is rated an average on a ten-point scale (see below left).

COSTES

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Open: Mon–Sat noon–3pm, 6–11pm



Happenings

MARCH/
APRIL

BUDAPEST SPRING FESTIVAL

March 20-April 5

Hungary's biggest contemporary arts celebration stars top talents from across the country and planet, performing in several of the capital city's premier venues – here are some highlights:

TREY MCINTYRE PROJECT This Idaho-based modern dance company soars around the globe with daring choreographies marked by a uniquely hip soundtrack, including hits by the Violent Femmes and the Beatles. March 24, 25, 26; 7pm – Palace of Arts (Pest IX, Komor Marcell u. 1)

ORCHESTRA BAOBAB Fusing African highlife melodies with salsa beats and Congolese rumba, these ten musicians went from obscurity as a local Dakar band in the '70s to world-music superstardom today. March 21; 8pm – Millenáris Theater (Buda II, Kis Rókus u. 16-20)

JAPANESE DAY This family-friendly introduction to Japan's culture includes interactive displays of *origami* (the art of paper folding) and playing the *koto* (an oversized string instrument). March 21, 22; 11am-5pm – Thália Theater (Pest VI, Nagymező u. 22-24)

MAX RAABE & PALAST ORCHESTER This modern-day big band from Germany plays swing-styled retro renditions of modern pop hits (like "Sex Bomb" and "Tainted Love") to create amusing audio anachronisms. March 23; 8pm – Palace of Arts (Pest IX, Komor Marcell u. 1)

Check out www.btf.hu for complete program and ticket information. ★



★ Culture and lifestyle

35

Business
Hungary



TITANIC INTERNATIONAL FILM FESTIVAL

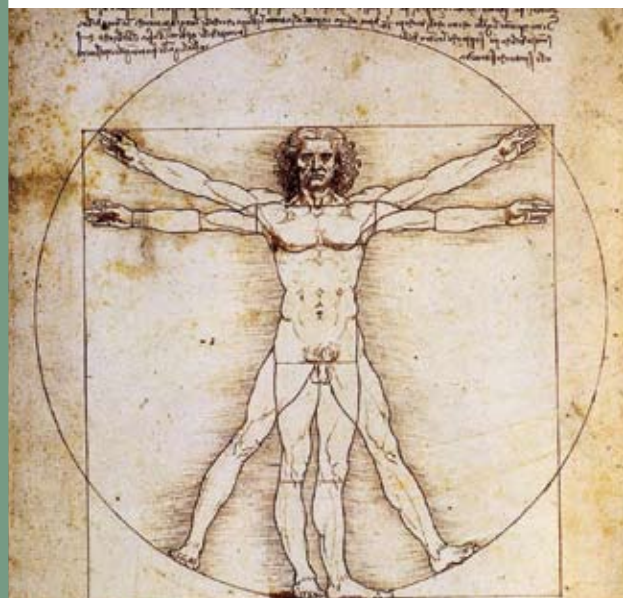
March 26-April 5

Sailing on into its 16th annual voyage, this ever-innovative cinematic series showcases new movies from around the globe that would ordinarily never see the light of day in Hungary. This year's ten-day lineup includes almost 60 films, including the likes of French comedy *A Christmas Tale* and Korean thriller *The Chaser*, projected onto a variety of silver screens – log onto www.titanicfilmfest.hu for schedule and venue details. ★

DA VINCI - THE GENIUS

Until July 19

Learn fascinating secrets behind the myriad works of original Renaissance man Leonardo da Vinci, owner of what could be considered world history's most prolific mind – who else could paint the *Mona Lisa* and dream up the helicopter in the same lifetime? Interactive displays and functional examples of his inventions enliven this exhibit at the VAM Design Center (Pest VI, Király u. 26); see www.davincithegenius.com for info. ★



Hard work and sacrifice

ISTVÁN HAVAS;
BEING 'SKILLFUL'
NO LONGER
ENOUGH

ISTVÁN HAVAS, Country Managing Partner at Ernst & Young, is not astonished that economically things are getting worse before they get better, in Hungary and in other countries in CEE in the context of the worldwide downturn. “Everyone knew it would come, because at some point the fundamentals need to come to the surface,” he says. “What is surprising is that it happened very suddenly. A bad piece of news can shake the whole foundation and now Eastern Europe is at that point.”

Still, according to Havas, opportunities may exist for a select few. “Those that are in a good business or can react more quickly have influence in how to get out of this,” he says. “This is a time when enterprises can become market leaders, time for decisive management decisions. Companies have to realize that the crisis may provide an opportunity to drive change more rapidly and effectively than a period of prosperity. It is possible to emerge from all this if you think over what you can do.”

Havas says enterprises are presently looking at cash flow and liquidity to be able to secure the present and figure out what to do in the medium-term. Although large businesses in Hungary have been concentrating on efficiency improvement for years, many of them have only just begun reducing their headcount, he says, and the number of lost jobs may well reach six digits before the crisis ends. Reductions in employee benefits, IT costs, real estate and property rental are also likely. “We have found that many times cost reduction measures unwind quickly and fail to sustain the desired benefit. The benefits of the cost cuts go away in two to three years, so the cost-reduction programs need to be done methodologically and systematically. Companies could now be forced to do this for a longer time.”

Managers are frequently shortsighted because their interest is in the now, he adds. “They have always been under the pressure of achieving quarterly or yearly budgets, but this is now amplified either by lack of liquidity or corporate instructions. So for many they’re sacrificing future opportunities. Businesses need a solid program to manage this change to be able to drive it through, including monitoring the impact and building the change into an organization’s daily processes, otherwise change can be quickly rolled back. Making change sustainable could give them a lead down the road.”

Havas believes that the present economic crisis is a much bigger hurdle than the one Hungary endured in the early 1990s after the political changes. Because of the present dire global situation, he contends that prospects for economic recovery are worse now than they were then for Hungary. “Then we were considered exotic but also worthy of receiving help as we opened up our borders, but now we are just too risky.” Today there are no assets to be privatized to generate cash, he says. “As Hungarians we like to be considered ‘skillful’, but it’s not the time for that but a time to work hard and make sacrifices.”

As a newly elected member of the AmCham Board, Havas believes the organization should continue to focus on taxation and transparency. “In terms of transparency, or rather the lack of it, everyone knows it undermines many things in the economy as well as in society. As for tax, we want to be sensitive to the social situation as well as the condition of the state budget, but further delay by the government in reducing the tax burden of businesses could be critical. These are matters where Ernst & Young’s expertise lies. It is something that I can bring to the Chamber.” ★



Anchor
At Luxury

Yacht life

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The Transparency Council: Let's clear things up

ACCORDING TO ENDRE MÉCS, chair of AmCham's Transparency Council, the direct correlation between corruption, transparency and competitiveness has been clearly shown.

"By becoming more transparent, a country becomes more competitive," he says. "Corruption, cronyism, and a lack of transparency and accountability have all added up to place Hungary low on the global evaluation of its competitiveness." Mécs reports that the Council has worked to promote awareness of this serious problem among politicians and in the broader Hungarian society. "We have identified four areas where fundamental change must occur: public procurement, access to information, transparency in the public administration, and financing of political parties. The Council has been successful in having some of its recommendations included in the latest revision to the Public Procurement Law," he says.

The Council's recommendations include the establishment of an independent body to monitor and combat corruption in all areas connected to the public purse and the strengthening of the investigative and judicial apparatus dealing with corruption issues. "We have pointed out the inadequacy of the current laws to deal with corruption," explains Mécs. "The government is only just acknowledging that the current situation needs an overall review,



and the problem cannot be solved without a concentrated and coordinated anticorruption program."

The Council has also been a catalyst in the implementation of some recent legislation for greater transparency and accountability, according to Mécs, adding, "Our aim is to assist in the creation in Hungary of a political and business environment where investors can legitimately believe that they are on a level playing field and that the public administration is there to help the investor and not just help themselves." ★

The Membership Council: Cohesion and growing our numbers

AMCHAM'S MEMBERSHIP COUNCIL is continuously working to ensure a solid foundation for the organization, a groundwork upon which all the activities and aims of AmCham can safely and enduringly be constructed. According to Membership Council Chairperson Andrea Jádi Németh, such a foundation must always be a stable for a lobbying organization, while membership should concurrently be diversified along the variety of business sectors that it represents.

"For me," says Jádi-Németh, "AmCham clearly manifests one of Hungary's strongest organizations that has been able to continuously and effectively represent the business interests of

both corporates (large and small) and individuals. I am convinced that the strength of AmCham lies not only in its capability to bring together the most highly recognized experts and to thereby guarantee maximum professionalism in its lobbying activities, but also in the very fact that it provides valuable benefits and services that all members can directly reap."

That said, according to Jádi Németh the primary aim is to find the most adequate means of retaining present members and attracting new ones to AmCham, providing the Council a major role within the organization. "This is just the point at which our interests start to converge," she explains of businesses joining AmCham. "I will proudly devote my time and energy to lead this Council with the very simple target of aiming to reach every solid business. I feel confident that a company being involved in AmCham with the aim of strengthening its own competitiveness in Hungary also improves the competitiveness of the whole of Hungary in the world market. Especially in turbulent times, it is indeed crucial that members understand the importance of their AmCham affiliation and that they receive constant feedback and conviction that this is just the right society to be part of," she contends.

Given this background, says Jádi Németh, the importance of the Council has just been reaffirmed by its placement within the new working structure that AmCham recently set up. She adds, "As long as AmCham keeps on carrying its ultimate objective to enhance the global competitiveness of Hungary by attracting international businesses, the Membership Council's mission to fulfill this ultimate objective will constantly be renewed." ★



The Human Resources Committee: It's all about people

HUMAN RESOURCES Committee Chairperson Éva Virág says the body's main mission is to bring a stronger and more structured people focus into AmCham's life and operation. And through that, provide an important contribution to the whole country's competitiveness regarding people management in these turbulent economical times.

"HR's role is in bolstering organizations' ability to perform, putting the right people in the right places to make sure companies make it through these hard times, and to facilitate conscious decision making on downsizings which have a direct influence on the level of unemployment in the country," says Virág. "Nowadays, this is becoming increasingly crucial." Accordingly, she explains there are three main goals for the new HR committee in 2009. First, above all, stronger cooperation must be fostered, generating a very active sharing experience among the HR leaders at companies operating in Hungary.

She adds, "With the help of the committee's formulating Core Team – consisting of outstanding and very experienced people – we also seek to provide professional support to AmCham members in addressing the new challenges they face. And last but not least, we are eager to come up with strong positions on the most important questions in managing the country's workforce, and formulate suggestions for the government regarding what kind of steps we



believe are necessary for retaining the competitiveness of Hungary in the eyes of foreign investors."

As she believes these challenges are difficult to achieve at present, Virág is encouraging HR leaders and managers to join in and take an active role in the Committee's work throughout the year. ★

The Anti-illicit Trade Committee: Fighting for rights

AS PART OF AMCHAM'S new working group structure, Gusztáv Bacher, partner of Szecskay Attorneys at Law, has drawn up an action plan as the first step in organizing and managing the Anti-illicit Trade (Intellectual Property Rights) Committee. This committee is one of 11 that is addressing key issues in improving Hungary's competitiveness.

Chairman Bacher says, "The work of the Committee focuses on the ways in which IP brand owners can take initiative in the fight against counterfeiting and piracy. Taking into consideration that IP protection is one of the government's top priorities, the committee will take an active role in cooperating with government agencies such as HENT," which is the National Board Against Counterfeiting and Piracy, created as a step in the implementation of the government's National Strategy Against Counterfeiting and Piracy for the period of 2008-2010 and the related action plan.

The committee will also work toward keeping an open dialogue with IPR-related authorities, he explains, which aims to boost the effectiveness of a whole range of instruments for protecting IP and combating counterfeiting and piracy. "Another key part to the action plan is educating consumers about the utmost importance of IP rights," says Bacher, who reports that the Committee will also begin providing AmCham members with up-to-date information on the legal practice of courts and authorities. ★





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Looking beyond the economic crisis

IN A CRISIS LIKE the current one, everybody tends to focus on today's problems and how to get their businesses through them. But what we need to do first is look beyond: try to understand what future business conditions will be like, and manage the present from that perspective, said Paul Laudicina, global chairman of worldwide consulting firm A.T. Kearney during a Global Leaders on the AmCham Podium luncheon on February 26 at the Budapest Marriott Hotel.

We are midstream in an extraordinary inflection point in history, Laudicina said. "I'm sure that when we will look back later on 2009, we will see that this is a paradigm shift." In the current environment of continuous and disruptive change, he argued, business leaders wanting to survive and return to growth would be wise to engage in scenario-based strategic planning, centered on a set of fundamental questions. Will globalization continue, and how can governments resist the tendency towards protectionism? How will demographics influence the workforce, for example a new major enhancement in life expectancy within the next decade as a result of biotechnology? Will consumer behavior stay irrationally exuberant, or will people start saving again? Is the issue of environment and natural resources disappearing to the background now that the oil price is below \$40, or is sustainability going to stay on the agenda of major companies? How will the new era of reregulation coming upon us affect business? And last but not least, how much change will technological enhancement and innovation bring?

"Look through this prism, and you can determine what future business conditions might be for your specific company," Laudicina

said. But he immediately acknowledged that this is not easy. "We need to think cross-border, but political power is dominated locally. We need to think long-term, but the focus is on the next election or the quarterly figures." ★



Obtaining EU funding for training

"NOT ONLY SMALL AND MEDIUM-SIZED enterprises, but also large ones can obtain sources for trainings in 2009," said Tamás Csikesz, managing director of DFT-Hungária, supplier of knowledge-related services, at the AmCham seminar held on February 24. He portrayed a credible and clear picture of the available financial

resources for training and operational improvement for the following years. The seminar's sponsor, DFT-Hungária, provided participants with factual and useful information related to the nearly Ft 40 billion fund that can be spent on employee training. These funds play a dominant role in the lives of small, medium and big enterprises in 2009/2010 with regard to the continuous training of workers. Complemented with its own tender project management team, DFT-Hungária, an accredited adult education institution, was the second-largest trainer on the market of trainings realized from EU funds during the first section of the National Development Plan (*Nemzeti Fejlesztési Terv*).

Csikesz presented an accurate picture of what operational improvement trainings, realized from EU funds, mean. Additionally, he also explained which organizations can become beneficiaries of EU training funds. The specific options included, among others, the Social Renewal Operational Program or TÁMOP (*Társadalmi Megújulás Operatív Program*), especially the TÁMOP 2.1.2., which was created to develop labor market-related key competences. ★



The threat of insolvency, restructuring and liquidation

WHEN A COMPANY faces the threat of insolvency, the typical reaction of this company or its creditors is to initiate liquidation proceedings. However, there would be other alternatives for the company to escape from the financial difficulties. "Bankruptcy proceedings are not chosen as they cannot offer sufficient procedure to the debtor company in order to restate the company's liquidity," said Andrea Csőke, judge of the Metropolitan Court, at the AmCham seminar, organized together with CMS Cameron McKenna on February 11.

If the creditors realize the threat of insolvency of the debtor, they will try to immediately enforce their securities. It turned out from the presentations that fixing the security position requires caution on the side of lenders. In light of the current financial crisis, Andrea Csőke's fascinating presentation on the cross-border insolvency proceedings from the judicial perspective showed how the court has to proceed in these cases and the issues that the creditors should take into account.



Ferenc Császtai from the Hungarian Chamber of Judicial Officers said that the new procedural law changes, such as the simplified sale of pledged assets or the electronic auction, offer a fast way of sale to the security beneficiaries. Thereafter Milán Kohlusz, dispute resolution partner of CMS Cameron McKenna, highlighted issues and addressed open questions in the Hungarian insolvency and enforcement law from a procedural law perspective.

In spite of the large number of attendees, the event was highly interactive, with a discussion focusing on the most successful and most cost-effective ways to enforce security interests and how one can cooperate to avoid the liquidation of the debtor company. ★



NEW MEMBERS - BUSINESS

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AmCham – Pannon Valentine’s Day Ball 2009



ON SATURDAY, FEBRUARY 14, over 200 guests attended the AmCham-Pannon Valentine’s Day Ball 2009 at the Budapest Marriott Hotel to enjoy an exclusive and live performance by Boney M., featuring Liz Mitchell, one of the most successful disco bands ever.

Following an energetic performance, including hits such as “Daddy Cool”, “Ma Baker”, “Rasputin”, “Happy Song”, and “Sunny”, participants were kept on the dance floor with the best of the disco era by DJ Dominique. Alternatively, for those who wished to take a break, participants could visit the cocktail bar, Hungaria sparkling-wine bar, casino, and cigar & whisky lounge. Among the highlights of the evening was undoubtedly the “Sparkling Diamonds” quest, during which guests had the chance to win one of three diamonds.

At midnight, the winners of the Charity Grand Raffle were announced. As in previous years the raffle lived up to its reputation with amazing prizes such as flights, holidays, a BlackBerry, luxurious cosmetics, and much more. In total, this year’s raffle raised over Ft 360,000 for the AmCham Foundation, which it will distribute to organizations in Hungary helping children in need. After the raffle, DJ Dominique accompanied guests into the early hours of the morning with a selection of international and Hungarian hits. ★





DR. GÁBOR TEHLICH, CHIEF PHYSICIAN,
MÁTYÁSFOLD CLINIC AND PARTNER.



KARL ERIK BROTEN, CFO,
PANNON, AND PARTNER



GYÖRGY RÉTFALVI, CEO,
ITD HUNGARY, AND PARTNER



KÁROLY KIS, MANAGING DIRECTOR,
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AMCHAM

Calendar of Events

MARCH

24 Tuesday 6:30pm
AmCham Business After Hours
Location: Café Miró Grande

26 Thursday 12:30pm
Farewell Business Forum with H.E. April
H. Foley, US Ambassador to Hungary
Location: Budapest Marriott Hotel

26 Thursday 5 pm
AmCham– CEU Academy: Managing
the Supply Chain During the Economic
Crisis
Location: CEU Business School

APRIL

8 Wednesday 4pm
Seminar and Cocktail: Economic
turbulences in the light of labor law
Location: Kempinski Hotel Corvinus
Budapest

21 Wednesday 4pm
Seminar and Cocktail
Location: Kempinski Hotel Corvinus
Budapest

30 Thursday 12:30pm
Business Forum
Location: Budapest Marriott Hotel

Note: Our events schedule may be subject to change. Please always check the AmCham website (www.amcham.hu) for the most up-to-date information.

WE HAVE MOVED

The American Chamber of Commerce in Hungary (AmCham) has relocated to a new office.

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Please note, the new mailing address is:
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Goals of the American Chamber of Commerce Foundation (AmCham Foundation):

- To help children in need of social, mental or physical support
- To provide transparent and ethical charity services for donor corporations
- To promote corporate social responsibility and the ethos of volunteerism in the Hungarian business culture

AMCHAM STAFF



PÉTER DÁVID

Chief Executive Officer

peter.david@amcham.hu

T: (+36.1) 266 9880



LÁSZLÓ METZTING

Chief Operating Officer

laszlo.metzing@amcham.hu

T: (+36.1) 266 9880 / ext. 316



ANITA ÁRVAI

Events Manager

anita.arvai@amcham.hu

T: (+36.1) 266 9880 / ext. 325



KRISZTINA BEDŐ

Manager Event and Content

Development

krisztina.bedo@amcham.hu

T: (36 1) 266 9880 / ext. 315



ERIKA BOSNYÁK

Finance Manager

erika.bosnyak@amcham.hu

T: (+36.1) 266 9880 / ext. 312



EMÍLIA RÉPÁSZKY

Membership Manager

emilia.repaszky@amcham.hu

T: (+36.1) 266 9880 / ext. 329



PÉTER TAUSZ

Research and Legal Specialist

peter.tausz@amcham.hu

T: (+36.1) 266 9880 / ext. 310





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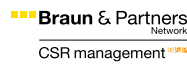
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PRESENTATION

"ART TREASURES HAVE A STORY TO TELL"

DIAMOND FAKING

SPEAKER:
OBERFRANK FERENC

DATE: 24TH MARCH 2009 AT 5.00 P.M.

VENUE: BÂV AUCTION HOUSE, APSZIS HALL
(H-1052 BUDAPEST, BÉCSI STREET 3.)



BÂV COMMISSION TRADE AND PAWNBROKER COMPANY