

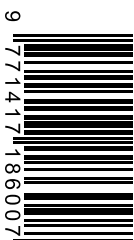
BUSINESS HUNGARY

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A balancing act

**FISCAL
DISCIPLINE,
LESS DEBT,
MORE
GROWTH**



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A realm of treasures...



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Henk Hirs

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DESIGN

Dominika Kiss

TYPOGRAPHY

György Éger

CONTRIBUTING WRITERS

Beáta Balogh, Tamás Kern, Kornélia Magyar, Kornél Sarkádi Szabó, András Török

PHOTO CONTRIBUTORS

BH-PXB, Barna Burger, Runa Hellinga, MTI, Péter Köhalmi, Balázs Nagy, Reddot, Reuters, stockxpert

PUBLISHING DIRECTOR

Margit Kohanecz

SALES MANAGER

Krisztina Otto
(+36.30 664 9647)

PRODUCTION MANAGER

Péter Wunderlich

PUBLISHER

András Wiszkidenszky

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H-1061 Budapest, Király utca 16
Phone: (+36.1) 887 4848

ADVERTISING INQUIRIES

sales@pxb.hu

LETTERS TO THE EDITOR

business.hungary@pxb.hu

AMCHAM BOARD OF GOVERNORS



PRESIDENT

DR. GUSZTÁV BIENERTH

T: (36 1) 266 9880

Fax: (36 1) 266 9888

gusztav.bienert@amcham.hu



FIRST VICE PRESIDENT

DR. PÉTER PAÁL

IBM Hungary

1117 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

1114 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, Kinizsi u. 1-3

Fax: (36 23) 449 237

eantal@hu.tesco-europe.com



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laszlo.balassy@citi.com



FERENC BÁTI

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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. 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

1051 Budapest, Szent István tér 11

T: (36 1) 266 9880 Fax: (36 1) 266 9888

peter.david@amcham.hu

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Dear Members and Friends

AS THE NEW GOVERNMENT has only been in office for a few weeks, it is still early to judge the performance of the "crisis management government", but we do expect it to make fundamental, clear, and quick decisions that will help the economy grow and will boost Hungary's competitiveness. I am optimistic, as the new Minister of Finance, Péter Oszkó, and the new Minister for Economy, István Varga, are both longtime members and associates of AmCham. The new Minister of Finance was also a member of our board; therefore, he is familiar with our priorities and focus.

I am looking forward to the coming weeks and months, as our aim is to start a dialogue with the new government, not only to find ways to manage the financial crisis, but more importantly, to put Hungary back on the path to growth.

In May, we jointly organized a conference with the Hungarian Competition Office on advertising from the angle of competition, a key area that is rarely discussed in such a context. I was especially pleased by the participation of many advertising professionals and also by the fact that the conference created a platform for meaningful and intelligent debate. This forum well exemplified how we can add value to our memberships and can also represent the views of the business community to positively influence future legislation or the practices of the Competition Office.

We will strive to have similar forums in the future, as I believe that generic forums are no longer sufficient or necessary. Specific areas need to be addressed where you can voice your opinion and also contribute to the solution.

We must say farewell to some of our most important and valued partners at the US embassy, as Patricia Gonzalez, Stephen Knode, and Michael Hurley are leaving Hungary soon. We have had an excellent working relationship with them during the past years, and now we would like to thank them for their great support. Until the arrival of the new ambassador, the Embassy will be run by Chargé d'Affaires Jeffrey Levine, whose great expertise guarantees there will be a smooth transition for the new staff arriving later in the summer, when we will also introduce them to the AmCham community.

As we are approaching the holiday season, I wish all of you a well-deserved vacation; but of course, AmCham will not sit still. We are working hard to prepare the membership, the board, and our staff for a new season of improved business, social, and political activity in Hungary where the challenges will not lessen, but will most likely increase in the future.

Best regards,
Gusztáv Bienert



Our aim is
to start a
dialogue
with
the new
government.



A balancing act

FISCAL DISCIPLINE, LESS DEBT, MORE GROWTH

As soon as the world economy starts picking up again, Hungary can – within a few years – reach higher growth rates than generally forecasted, while at the same time bring down its relative debt burden substantially. But sustained fiscal discipline is key, says economist Gábor Oblath, former member of the Monetary Council of the Magyar Nemzeti Bank and one of the three parliamentary elected members of the independent Fiscal Council, the new body that will monitor government compliance with fiscal rules from the second half of this year. **BY HENK HIRS**

HUNGARY'S GROSS STATE debt stood at 72.4% of GDP at the end of 2008, up from 65.8% in 2007 and 52.1% in 2001. Clearly, Hungary has been living well above its means, so its government now has to repay (roll over) roughly Ft 315 billion a month (Ft 3,800 billion or more than €13 billion a year). Interest payments on public debt amount to Ft 1,225 billion or €4.2 billion in 2009, so total debt service obligations reach about €17.2 billion (roughly 19% of GDP) in 2009. A huge burden, "but this debt problem is not something that came over us as a kind of natural disaster, it was the result of certain decisions by policy makers," says Oblath. "In 2001, Slovakia and Hungary had more or less the same public debt ratio of around 50%. From then on, developments in both countries were the mirror image of each other. Debt ratio in Hungary grew to well over 60%, while in Slovakia under the Dzurinda government it went down to below 40%."

OVERSPENDING

IN THE PERIOD 2001-2006, the lack of fiscal discipline from the part of successive Hungarian governments was the main problem, Oblath says. It started in 2001-2002 under the then-Fidesz government. The introduction of an open-ended housing and building subsidy scheme was a major element. It was continued and accelerated under the Medgyessy government with the introduction of the 13th-month pension and the 50% increase in wages in the public sector, among others. All these policies were mainly financed with foreign credits, indicating that the country was living well above its means, Oblath says.

The Gyurcsány government changed course only in 2006, and the government brought down the deficit from almost 10% to just more than 3% in a few years, but while fiscal discipline improved, things got out of hand in the private sector, he continues. Hungarian banks provided more and more forex-based loans to households, undermining the stability of the Hungarian financial system. This turned out to be a major mistake when the international financial crisis unfolded. "Nobody really understood what the risks of these loans were: not the consumers, not the banks, nor the regulators, but regulation was clearly not adequate," he says.

With hindsight, it can be said with certainty that building up such a high debt is very harmful, Oblath continues, as it means, for example, that Hungary cannot currently afford a counter-cyclical fiscal policy – financing a stimulus for the economy – as is being done by countries like Germany, France, Slovakia, or the Czech Republic. "We have hardly any room to maneuver," he says. "Financing a welfare state through foreign loans is a recipe for disaster, while a low public debt is a buffer against future shocks."



GÁBOR OBLATH

NO OPTION TO DEFAULT

IN SOME ECONOMIC CIRCLES it is said that if it were not for debt servicing, the Hungarian economy would be more or less healthy, but Oblath doesn't agree. "That is oversimplifying things. Yes, debt servicing is a serious problem, and I know there is a line of thought saying that if we somehow would get rid of it, we would be better off. But it is not constructive to think this way, because it is just not feasible, certainly not now that we are in the EU." Theoretically, the creditors could offer to reschedule annual payments, he says, but that is not likely to happen. So the only way to get rid of your debt would then be to default, "but that means instant economic collapse and an extended period of stagnation with no credit at all, also no short-term credit." The consequences of such a step for Hungary, but also for the wider region and the EU, would be unprecedented, he adds.

It is more or less what happened in Poland in the 1980s, but that was under entirely different circumstances, he says. Poland defaulted, the Polish economy collapsed, and it took a very long period of negotiations before the Poles managed to agree with their creditors. There was, he explains, also some discussion in Hungary in 1989/90 about a possible "easing of foreign debt," which would have rid the country from the debts built up under Kádár during the 1970s and '80s. Due partly to consumer subsidies and subsidies to unprofitable state enterprises, as well as terms-of-trade losses, Hungary's net foreign debt rose from \$1 billion in 1973 to \$15 billion in 1993, leaving it the most indebted former communist country of

the Eastern bloc. But after the change of system, politicians and most economists in Hungary were against defaulting, Oblath says, as it would obviously not have endeared Hungary to the financial markets and foreign investors which the country needed to get on its feet again. Also, it would have meant an even more severe economic and social crisis than the country already experienced.

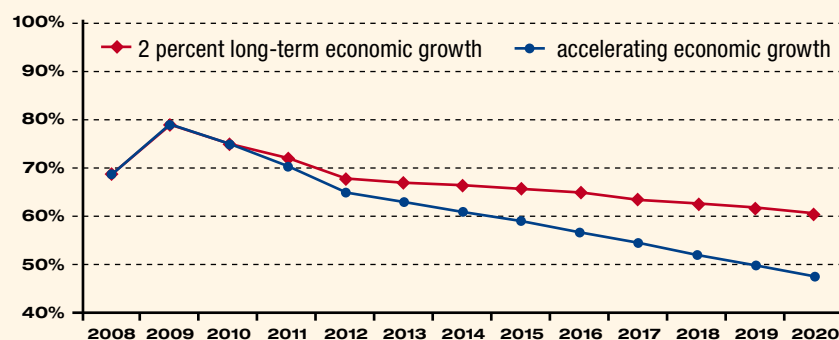
IN THE MEANTIME

THE QUESTION NOW is whether it is possible for Hungary to lower its debt burden, while also creating considerable economic growth in the medium term? "Yes, I think it is possible," says Oblath. "Growth in Hungary is very much dependent on what happens in the EU, and especially Germany. As soon as growth returns there, you will see an improved performance in manufacturing and also in other sectors in Hungary. In the meantime, the government should implement reforms that result in a higher number of people being active in the labor market." According to Oblath, the demand for labor should be boosted by decreasing taxes on labor (currently Hungary is the second highest in the EU, behind Belgium), while people need to be encouraged to look for work by increasing the difference between the minimum wage and social benefits. "If this succeeds, then we might even see higher growth rates than the 2% for the medium term that is generally being forecast now," he says.

Oblath thinks that achieving a sustainable path of public debt is feasible at the same time. First, the €20 billion IMF/EU credit facility that Hungary got in October creates no additional government debt outstanding for the country in the medium and long run, he says, referring to a recent study by Zsuzsa Mosolygó and Lajos Deli of the Government Debt Management Agency, showing that after a temporary increase, the Hungarian government debt ratio may start to decrease as early as 2010 (see Graphic 2). Secondly, the same study also shows that it is possible to decrease the public debt ratio considerably over the next five to ten years (see Graphic 1). "Fiscal discipline, however, should be persistent, which means that improvement in the primary balance ought not to be eroded during the following years," Mosolygó and Deli write. As Oblath concludes, "Maintaining fiscal discipline and encouraging growth will be a very difficult balancing act, but it is feasible." ★

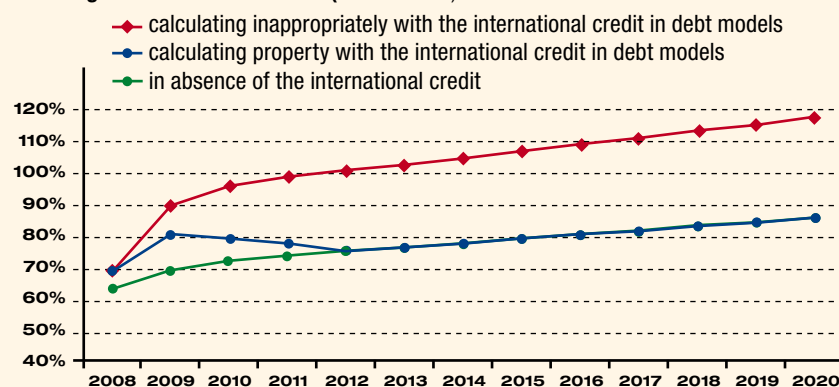
Graphic 1

Central government debt to GDP (Source: ÁKK)



Graphic 2

Central government debt to GDP (Source: ÁKK)



EU LAGGARDS

At the end of 2008, nine EU-member states had government debt ratios higher than 60% of GDP (one of the Maastricht criteria): Italy (105.8%), Greece (97.6%), Belgium (89.6%), Hungary (73%), France (68%), Portugal (66.4%), Germany (65.9%), Malta (64.1%), and Austria (62.5%).

Changing figures

IMF AGREES
TO HIGHER
BUDGET DEFICIT

Hungary's budget deficit target for this year has been raised from 2.9% to 3.9% of GDP, as the outlook for the economic environment turned out to be worse than previously expected, said Finance Minister Péter Oszkó after an agreement on the deficit was reached with the International Monetary Fund (IMF) and the European Commission in May.

BY HENK HIRS

THE 2010 BUDGET GAP target was also allowed to be reset to 3.8% of GDP, while the target for 2011 – when Hungary will be required to meet the Maastricht criterion on general government deficit (3% of GDP) – is 2.8%. The upward revision of the targets came about strictly due to the worse-than-expected recession, and contrary to previous press reports, it does not leave room for tax and contribution cuts, the minister said.

Even with these higher targets, Hungary's budget deficit will still probably be one of the lowest in Europe. The average budget deficit in the EU will be around 6% in 2009, "so this time, Hungary will be among the more prudent ones for a change," said Prime Minister Gordon Bajnai at a meeting with foreign press on May 15. The government does not want to set a date for joining the euro zone, rather, it wants to take the necessary steps to meet the conditions for adopting the single currency, thus winning back investor confidence.

TOUGHER CONTRACTION

IN LINE WITH PREVIOUS press reports, the cabinet's GDP contraction estimate was modified from 5.5%–6% to 6.7% for 2009. The government predicts a recession of 0.9% in 2010. It projects exports to dip by 15% and imports to collapse by 16–17% this year. The new prognosis for this year's annual average inflation is 4.5%.

Magyar Nemzeti Bank Governor András Simor said both the central bank and the IMF/EU officials are of the view that, due to the regulatory price changes, it would be advisable in the future to focus on the consumer price index (CPI) that is cleaned from the one-off impact of tax changes. In discussions with the IMF and the EC, Hungarian authorities came to an agreement that Hungary's annual average inflation will be 4.5% this year and come in at 3.8% in 2010. The data gleaned off the one-off tax measures will likely show a CPI of around 3% these years, Simor said. Hungary is to hike the VAT rate on most products and services to 25% from 20% as of July, which is to boost inflation by about 3% by year-end.

GKI PROGNOSIS

ON THE OTHER HAND, economic think tank GKI is slightly less pessimistic. It sees Hungary's economy contracting 5.5% in 2009, it said in a projection prepared with Erste Bank. The recession will deepen because of sharply falling external and domestic demand and because of new government spending cuts and tax changes, according to GKI. GKI also said Hungary's external financing need will drop to €2 billion in 2009, or 2.2% of GDP, down from €7.8 billion in 2008. As imports and exports fall, the trade surplus will grow, and as profits decline, profit repatriation will decrease. EU payments will rise to €2.5 billion in 2009 from €1.1 billion in 2008.

Nominal gross wages will rise slightly in the private sector, but fall 3% in the public sector. Overall, real wages will drop about 4%. Income of pensioners and households with children will drop more, as pension and family subsidies are cut. Household consumption is expected to slip about 6%, not only because of the drop in purchasing power, but because of growing unemployment and an increased propensity to save. Households will be driven to save more because of bigger installments on foreign currency-denominated loans, but high deposit rates will also attract savings. GKI sees the savings rate rising to at least 5% of GDP in 2009.

At a rate-setting meeting on May 25, the Magyar Nemzeti Bank's Monetary Council held the base interest rate at 9.5%. ★



Farm wars II

CODEX: THE WRONG INSTRUMENT TO ADDRESS REAL PROBLEMS

The “Ethical Codex”, an agreement stipulating that 80% of food and food products in Hungarian supermarkets should be of Hungarian origin, is “fundamentally in conflict” with EU laws and regulations, says Gerrit Meester, chairman of the Agricultural Committee of the Organization for Economic Cooperation and Development (OECD). Péter Tóth, director of consultancy firm Agrár Európa, concurs. This codex will not work and is the wrong instrument to solve some serious problems in the agricultural sector in Hungary, Tóth says.

BY DREW LEIFHEIT

THE CODEX IS an initiative of Minister of Agriculture József Gráf and was signed in April by representatives of farmers, the food production industry, and some (not all) major retail chains. Among others, it came about after last year’s troubles between farmers and hypermarkets about the prices of cherries, watermelons, apples, meat, and milk (*Business Hungary* September 2008, “Farm wars”). The new agreement, which officially is voluntary, should be enacted on July 1, and its effects will be investigated at the end of the year. If this doesn’t work, the minister said, legal steps will be worked out.

IN CONFLICT WITH EU RULES

BUT IN MAY, the Hungarian Competition Authority (GVH) has already started an investigation to see whether this codex “is in line with the EU treaty which doesn’t allow favoring products from one EU country over another.” It is not, according to Meester, who is also a special advisor to the Ministry of Agriculture in the

Netherlands. “Such an agreement is fundamentally in conflict with the single European market and with European agricultural policy,” he says, referring also to other EU countries where farmer unions are demanding such regulations. “This policy does allow, within certain conditions, that products are labeled according to region or country of origin, but it is not allowed to prevent people from selling or buying products that are not locally produced.”

The codex might also be in conflict with the competition rules in the EU, he stipulates. “A company may set certain requirements for a product, but European competition policy does not allow companies to make agreements among each other to set such requirements – as seems to be the case here – even if a national government suggests or decrees such agreements.” Finally, he says, a country cannot just apply its own standards as to what products may be labeled ‘Hungarian’ and what may not. “In my opinion, that can only be done according to the ‘rules of origin’ that are commonly applied in the EU.” These rules of origin are a comprehensive set of standards and characteristics, laid down in Brussels, while in the case of the codex, the ministry seems to have set its own standards.

What is a Hungarian product and what is not is an interesting question anyway, says Tóth from Agrár Európa. Under pressure of farmer organizations, the Hungarian formulation has become a very complex one, involving where the product comes from or is produced and whether it contains [enough] Hungarian ingredients and components, he says. This



“Learn to become more competitive.”

is clearly discriminatory towards products coming from other EU countries, he says. Also, there are certain food products which are widely considered to be typically Hungarian, though in fact their ingredients nowadays are 100% foreign. Should these 'Hungarian' products now be banned from the shelves? Tóth would prefer a simple definition that anything produced in Hungary is Hungarian. But even then, there would be a confusing situation with food products from modern multinational companies. For example, would tomato ketchup produced in Poland for the CEE market be Polish, while mayonnaise produced in Hungary by that same company for the same CEE market be Hungarian?

SERIOUS PROBLEMS

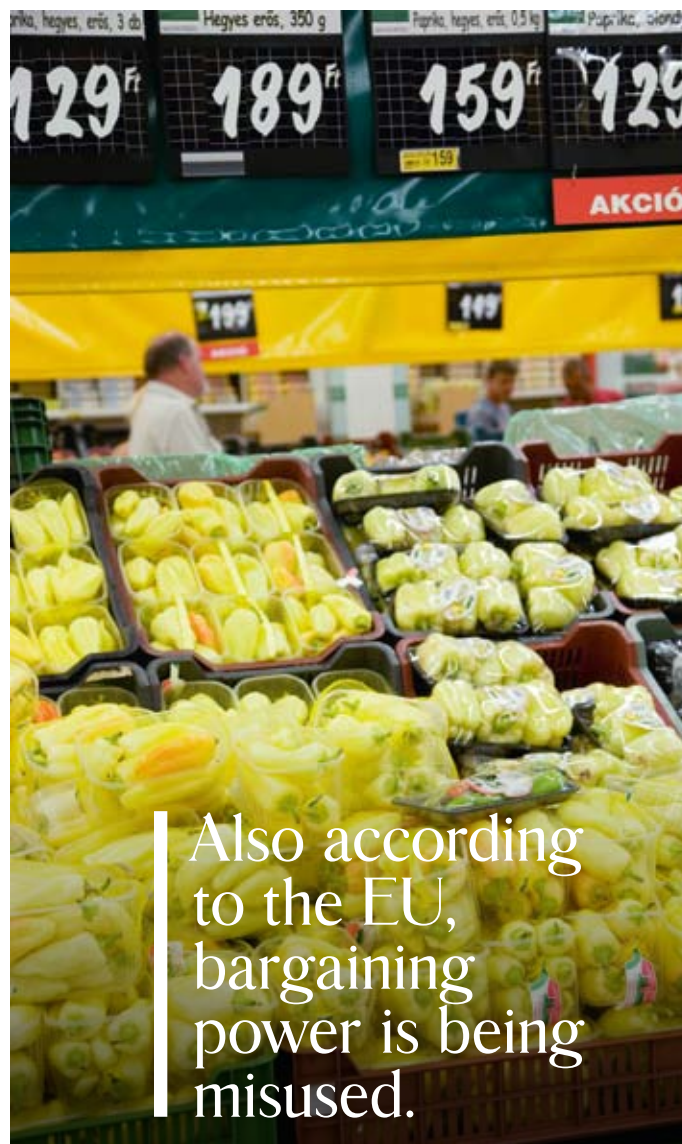
ALL THIS ISN'T TO SAY that there are no serious problems with prices in the food sector in Hungary and the complaints of farmers are completely groundless, says Tóth, who is currently also involved in drafting an EU report on food and food prices, due in September. The European Parliament and the European Commission have repeatedly expressed their concerns about certain developments, especially the "significant changes in the competitive structure of the food-supply chain and increases in the degree of concentration among both food producers and wholesalers and retailers," he says, quoting the draft report.

This is also very visible in Hungary, Tóth says, where 70% of the Fast-Moving Consumer Goods (FMCG) sector is in the hands of five to seven retail chains, almost all foreign. Until recently, the same was the case in the food processing industry where also 70% of companies were foreign-owned. There are many complaints that this concentration of ownership and power for only a few players leads to abuse of bargaining power, Tóth argues. And this doesn't only negatively affect Hungarian farmers, he adds, but also food companies, even though some of the bigger food companies are in turn sometimes accused of unfair practices towards their suppliers.

These are EU-wide phenomena as well, as testified by a report to the European Parliament adopted in March this year. "Evidence from across the EU suggests that big supermarkets use their buying power to force down prices paid to suppliers to unsustainable levels and impose unfair conditions upon them. Whereas large retailers across Europe are fast becoming 'gatekeepers', controlling farmers' and other suppliers' access to EU consumers," the report reads. "Considerable price differences have been identified across Europe with regard to the spread between consumer and producer prices, which in some cases cannot be explained by the costs involved in the processing, distribution, and selling of products," and "the imbalance in bargaining power between agricultural producers and the rest of the supply chain has resulted in strong pressure being maintained on producer margins in the agricultural sector." The report goes on to cite unfair, aggressive, anticompetitive, and sometimes illegal business practices, such as forceful pricing measures, selling below cost price, product tying, excessive payment deadlines, listing charges, slotting allowances, threats of delisting, retroactive discounts on goods already sold, unjustified contributions to retailer promotion expenses, insistence on exclusive supply, dumping, and cartels.

PROTECT FAIR BUSINESS

THE IDEA TO DO something to protect local producers against the misuse of power by major retailers or food production companies



– foreign or Hungarian – is not bad, but this codex is not a good instrument, says Tóth. In his opinion, oversight and regulation with the aim to protect fair businesses need to become stronger. For example, where many European countries strictly regulate the activities of retail chains (including their numbers and the places where they may set up shop), nothing of the sort seems to happen in Hungary. "Competition authorities in Hungary need to become much more active, and the same is true for the tax office," Tóth says. "It would also be good to publish unfair business practices, and thus mobilize consumers and consumer-protection organizations against such practices and those who commit them."

On the EU level, Meester agrees. In the case of real problems concerning competition, everybody is free to turn to competition Commissioner Neelie Kroes or the director-general of the EU Commission for Competition, he says. "If the commission establishes that something is wrong, it will intervene. That is the case for cartels in the supplying and production industries, but also for cartels of farmers and their associations. Farmers are also entrepreneurs who have to abide by European competition laws."

According to Tóth, there are also other issues that need to be discussed on the EU level, such as environmental, human health, and animal welfare considerations in the production and transportation (certainly over long distances) of food.

BE COMPETITIVE

BUT THERE IS ANOTHER SIDE of the coin, Tóth says. Hungarian agriculture “still has very serious adaption problems.” Many farmers are still not competitive, EU subsidies were often not utilized professionally, there has been a lot of political interference in the sector, and even major Hungarian food companies are generally very bad at marketing, he sums up. As a result, he says, Hungarian agriculture is a net loser of the EU accession. The trade balance is still €2 billion positive, but in some segments like pork, fruits, and processed milk products, the country has become a net importer. Because of this situation, some major foreign food companies have decided to close down their regional head offices in Hungary and move them to Slovakia or Poland, according to Tóth, so foreign capital in the food industry has actually declined over the past two years from 70% to 50%. “Hungarian farmers and suppliers just have to learn to become more competitive, as has happened in recent years in the milk sector. There are now only about 600 large-scale milk producers left, but these are as competitive as any milk farmer elsewhere in the EU,” says Tóth.

Also, Tóth is certain the Ethical Code will not even work in practice. “It can’t be implemented; oversight is almost impossible and companies will find ways around it,” he says. There is, for example, nothing to prevent a retailer from having the exact 80-20 ratio of products on its shelves, and at the same time, ensure that the shelves with ‘foreign’ products are stocked faster.

Meanwhile, farmer organizations in Italy are now demanding 100% Italian food in Italian retail shops — obviously not a good idea for the many Hungarian farmers who raise lambs, with lamb meat being one of the major Hungarian export products to Italy. ★

BE DIFFERENT

József Péter Tóth, owner of the Lipóti Pékség bakery chain founded in 1992, doesn’t complain about the crisis. In fact, he says he feels it inspires him to further develop and expand his company.
by Beáta Balogh

Tóth transformed his enterprise in 2006 when he realized that, as a supplier for other companies, he could not compete with the low prices of supermarkets. “I had to invent something different, something better. I decided to open a special bakery. I offered more in terms of quality and variety,” says Tóth. His calculations proved right: today, he has 70 shops in 20 different towns across Hungary, employing 230 people. “If I open a new shop, it needs to meet seven or eight criteria, where quality and variety come first,” says Tóth.

“Market economy has its advantages,” he continues. “It means more work and new tasks to fulfill. I simply realized that problems should not be addressed only from the aspect of pricing. Supermarkets bake a loaf of bread in two hours and sell it for Ft 100, while I take five or six hours to bake it, excluding the time for preparing the yeast and the time for it to rise. I offer a traditional type of bread, which cannot really be copied if you do not have the relevant knowledge. In a few weeks, we will start to sell a new product: the traditional moon-shaped roll [croissant]. If you hold it in your hand and twist the roll, it will regain its original form as soon as you let go because it is made of high-quality ingredients which make it what it is: a traditional roll.”

If the codex
doesn't
work, legal
steps will be
worked out.



Doing well

QUALITY
AND
SERVICE
ARE KEY FOR REPAIR SHOPS

The shoe repair workshop of Pál Nietsch in Budapest increased its turnover since the onset of the financial crisis. "People buying expensive shoes have always taken them to be repaired, but due to the crisis, those in a difficult situation are now also forced to do so," says shoemaker Ibolya Hajmási. So for the repair and maintenance service sector, the current economic crisis might actually be good news.

BY BEÁTA BALOGH

A CLOTHES REPAIR SHOP in Budapest's Mammut shopping center has also experienced an increase in turnover, confirms one of the employees. "People get even older dresses repaired nowadays," she says. "They often come and ask for a lining or a zipper to be replaced, or for an adjustment of different items. We offer all sorts of services, even to re-tailor a dress for a special occasion."

On the other hand, Sándor Kuczman, owner of a small household-equipment repair workshop, does complain that his business has deteriorated over the last few years, because people do not often take their broken irons, vacuum cleaners, and coffeemakers to be repaired. "They replace these items with new ones bought in one of the hypermarkets. The basic fee I charge for going to people's homes is Ft 2,000, and when customers are told about this, they often give up. People only bring products to be repaired which represent some sort of value, for example a Hungarian-made coffee machine produced in Szarvas, or a valuable microwave oven, or tools," says Kuczman.

Still, Kuczman – who last year renovated the workshop he inherited from his father to meet EU regulations – is hopeful and sees encouraging signs. "Hungarians will stop buying everything that is sold cheap. They will pay more attention to quality and will slowly realize that it is pointless to buy a sanding machine for as little as Ft 5,900 if it then breaks down after first use. People will realize that quality counts, and that those quality products are worth repairing," he says.

This standpoint is born out of the latest survey on the changes in consumers' attitudes, published by market research institute GfK Hungária in May. Product quality is the most important criterion for Hungarian consumers, while the price of the product comes second on the list, the study concludes, confirming a trend that started in 2003. "Over the last ten years, people in Hungary have gotten used to the availability of a wide range of products and famous brands. This survey proves that quality is still the top priority; 96 out of 100 interviewees were of this opinion," says János Kui, commercial sector manager with GfK. "Yet, it came as a surprise that 68% considered the Hungarian origin of a product as important, a sharp increase compared to the 52% measured in

2005," he says. The research also shows that 92% of consumers are looking for a favorable price/value ratio.

This trend is also evident in the development of the Pál Nietsch shoe workshop, which was able to draw a lot of customers away from fast-repair service chains because it employs several qualified shoemakers, says shoemaker Hajmási. "People working at these repair chains are only taught how to use the machines, but they are unable to help when a customer comes up with a more complicated task, widening a shoe or fixing a whole new sole," she explains.

And István Kalmár, owner of a car-repair shop in Csepel, also says he is "not pessimistic." In the past decades, many smaller car repair shops closed down and only those capable of renewal and expanding their scope of services were able to survive, he says. Kalmár claims that so far he has not been largely affected by the crisis, although he does not expect turnover to grow this year. "But even if the crisis should reach us, we have specialized in repairing cars older than six years," he says. "We had a very successful December, and after the usual drop at the beginning of the year, business has already taken off again. And thanks to the large reserves spare parts dealers have, we can work at last year's prices." ★



People: the single point of difference

Mike Colicchio, Director of Global Financial Shared Services at Celanese talks about why talent is the driving force behind a successful SSC

What was the main idea behind Celanese, an internationally recognized chemical company setting up its Financial Shared Service Center in Budapest? Why this country and not somewhere else?

The Celanese philosophy is to deliver maximum value for our customers, shareholders and employees, to continuously improve our processes and to stretch ourselves to the highest standard of service. As a global company it's very important to have synchronized back office processes and to be as efficient as possible when serving our internal customers. To achieve this, the company's finance-related activities were integrated into one single business unit, which resulted in the creation of the Budapest-based center in September 2007. The center is the company's financial shared services hub with two other regional units in Dallas, Texas, and Nanjing, China. Hungary was an obvious choice – the country has a highly qualified workforce of young professionals with multiple language skills, an understanding of the shared service center environment and philosophy and an exceptional work attitude.



Celanese Hungary recently won Honorary Mention for the Best New Captive Shared Service Organization in the EU region. How important is it to have the right people in the right place in the SSC sector?

SSCs, due to their very nature, act as back offices for major companies. If operating properly, these centers are hidden from the eye but their operation is crucial for the business to achieve its primary goals and to keep customers satisfied. This model can be very cost-effective and nowadays virtually no major company operates without some kind of shared service center. To have a successful SSC, you must have the right workforce. Even the best-designed systems and processes will fail without great people.

Leaders often say that SSC's are not really about providing service, but it's a 'people business'. Do you agree?

Exceptional service is our goal. When you run a shared service center, you run a large back office responsible for the smooth running of the overall organization. You serve not only the company, but also its customers, vendors and employees. A poorly operating shared service center can damage the company's reputation. Seemingly little things like how timely your vendor payments are, how long it takes to close the books, how your customers are treated, how automatic and well developed your internal processes are, how reliable your IT backbone is, and so on – these are the factors that maintain the company brand. Most of this depends on the kind of people employed in your SSC. People and only people are the difference between quiet success - or a loud failure.



How do you, as an employer, see the benefits and the drawbacks of working in an SSC?

Working in such an environment is quite demanding; it's not unusual for an SSC to have multiple shifts or a 10-16 hour workday. From the employee's part, it takes a great deal of dedication and the right attitude towards work, and on the employer's side, the right candidate has to be selected for the position, and has to be well trained and kept continuously motivated. At Celanese we believe in not just attracting but also developing and retaining top talent. Management maintains a very open and honest two-way communication and our employees are encouraged to do the same. It's very important for employees to understand that an SSC is not about me or you; it's about "us" and "we." To me the policy of 'walk and talk' is of crucial importance. A good leader has to listen to employees and has to be approachable. We place great emphasis on training our people to become real leaders and I'm not only talking about top managers. We encourage and

expect employees and teams to take initiative on their own, to develop and perfect their own processes – you have to provide space for people to develop those skills they are really good at so they can excel. This way, every employee has the opportunity to become an expert in their area and a company can only reach its potential through expertise.

How does Celanese ensure the development of its employees?

Apart from a top office infrastructure, we offer a range of training possibilities. During our transition of work from North America and Western Europe to Budapest, every new employee participated in orientation training, followed by work shadowing at another Celanese location for a couple of weeks or even months. As a global company, we want our employees to think globally, and we encourage them to “think out of the box”. We continuously train our folks in the hard and soft skills needed to excel. At Celanese we believe in work-life balance, and our motto in the Budapest office, “Work Yourself Happy,” reflects this very well. People spend most of their time at work and they have to feel happy in their job to perform at peak levels. This obviously requires the balancing of one’s work and personal life.

How do you, as an American, see the atmosphere at the Budapest center?

Having a good atmosphere is extremely important in an SSC where people are working in close proximity and for a common goal. We have a system of monitoring our management team performance: they regularly undergo a 360-degree evaluation, where their skills and attitude are reviewed not only by their supervisors but also by their peers and subordinates. This secures a complete feedback and ensures that there’s no divide between “them” and “us.” Being a US company, we also try to live the American office culture by having a number of common activities - sport groups, community and charitable activities, movie nights and other cultural events, town hall meetings, meet & greet sessions, and open houses. We also work according to an ‘Open Door’ policy: managers’ offices are open at all times, so anyone can come in and talk to us. On a company level we use a number of surveys to monitor employee and customer satisfaction and continue to work towards improvement. Thanks to all this, we have a truly friendly atmosphere here and I’m very proud of knowing every single one of my employees. I sense that the employees of Celanese Hungary are happy with the work opportunities and the open and candid management style that I profess.

Apart from all the positive aspects, I’m sure you had some challenging experiences in Hungary... What do you think should be changed when it comes to employment?

I think – and probably I’m speaking for my peers in other SSCs in Hungary as well – that although Hungary is developing, it could achieve much more if the language education was better. There are quite a few young professionals, university graduates, who speak multiple languages but there is also a great deal of bright and talented young people who are denied the opportunity of finding good employment simply because they lack adequate language skills. With Hungary being a member of the EU and attracting more and more foreign companies especially in the SSC sector, it’s time to take this very seriously. In such an increasingly globalized environment it’s simply not acceptable anymore to speak only Hungarian, or maybe one additional foreign language. I think, given the otherwise exceptional quality of education, this is an area where the country could



become a regional leader. I’m a member of AmCham’s Labor & Education Council. We, Celanese, are walking the talk by piloting a language skills program next summer that will provide talented youngsters the opportunity to participate in business English training combined with a short-term work experience program. High School education should include language training and qualified language teachers should be identified, trained, properly compensated and deployed throughout the country.

The other area which requires immediate attention is the incredibly high employment tax rate and the complex benefits system. I can only hope that the present and future governments realize that keeping employment costs at such a high level will eventually, and not so far into the future, result in foreign investors turning away from Hungary. Multi-party long term views coupled with fiscal restraint and greater transparency in government is, in my opinion, the only way out of this significant economic bind. Increasing the tax burden on individuals and companies has proven time and time again to be the wrong course of action.

Are there any activities among the Hungarian SSC’s to address these challenges?

The SSC sector is something that this country is very strong at and the skills of our industry’s employees are exceptional. At the same time, however, the high employment costs, difficult and confusing bureaucracy and other discrepancies in the Hungarian system decrease the country’s competitiveness. Fortunately the SSC community is very active here, and we are working together to address the challenges in both professional forums and through AmCham networks.

Finally, as you have moved beyond the initial stage of your Budapest SSC journey, how do you see the future and what is your vision?

Our successful start-up now mandates two things. The first is the global standardization of processes and procedures, leveraging our single instance SAP system and well-trained staff and making certain that our three centers around the globe operate as one. The second is for us to continue to attract, retain and develop top talent. My vision is simple... We must strive to delight our business partners by forging a world-class financial services organization that exceeds all measurable and realistic metrics through value adding processes and exceptional people that are second to none! I trust that if we can focus on what is important and keep this vision in mind everyday, we will have a very successful journey.

x

Powers of the PC

DESKTOP GRIDS
PROVIDE
AFFORDABLE
INNOVATION

Discovering a new drug treatment and bringing it safely to market is a time-intensive process that can take up to 15 years. However, through the technological advancement of desktop grids, local scientists are developing a model that may increase the speed of pharmaceutical research, while searching for a cancer cure. This cutting-edge CancerGrid is just one application of Hungary's versatile SZTAKI grid platform, which is also being used to crack complex binary codes, study climate change, and even link remote office computers.

BY MARISA BEAHM

THERE'S AN ENORMOUS need to reduce the timeline of drug discovery and reduce the cost. A grid system could help, and that's a huge hope, says György Dormán, CancerGrid scientific coordinator.

The aim of desktop grids, or voluntary computing, is to take an immensely challenging problem that cannot be processed on one

computer alone and distribute it through networks of interconnected machines to use their collective power. Thus, it breaks down a large scientific inquiry that would require an expensive supercomputer or hundreds of thousands of years to process on a solitary machine and distributes it to volunteer systems, according to Péter Kacsuk, department head of the Laboratory of Parallel and Distributed Systems at the Hungarian Academy of Sciences, which developed the SZTAKI Desktop Grid.

On average, a computer only uses 5% of its capacity, so desktop grids are making these machines more efficient by applying their capabilities to more projects, Kacsuk says. "These computers that are otherwise doing nothing can be used for useful computation which otherwise couldn't be solved," says Tamás Kiss, senior lecturer at the University of Westminster's Center for Parallel Computing, which uses the technology internally.

Most desktop grids rely on anonymous members of the general public who register online to allow a project to access their computer and run calculations or simulations. It is quite simple to become involved in these programs which are happening all around the world, says Kiss. Once volunteers find a project they would like to help with, they can go to its web site and download something akin to a screen-saver application, which automatically runs the research on their computers.

For example, through Climateprediction.net, people can volunteer to run climate models on their computer whenever it's switched on and contribute to producing predictions of the Earth's climate up to 2080, according to the web site. The program, which uses the Berkeley Open Infrastructure for Network Computing (BOINC) platform, runs in the background of computers and shouldn't affect or slow down other tasks. The home desktops can report the information back to project through the Internet. "You don't have to be an expert. An everyday computer knowledge is enough," Kiss says.

DRUG DISCOVERY

NOT ALL ORGANIZATIONS that use grid systems can allow the public to volunteer computer resources because of confidentiality and security issues, but they can still utilize the technology, which is

"Practically anyone can do it..."



the case with the CancerGrid. This project, which is an EU co-funded project, is a consortium of 11 partners from seven countries and is currently coordinated by TargetEx, a company that offers biotechnology services for early phases of drug discovery. The goals of the venture are to provide a model of how traditional drug innovation can work with new biotechnology, to enhance molecular libraries, and to facilitate the discovery of potential anticancer compounds. "If it works to screen and evaluate a large number of compounds, then this will be a viable model for drug discovery within the EU," Dormán says.

Specifically, the project is examining colon cancer, and is using distributed computing to screen 30,000 compounds for cancer-related cell lines while using the data for rapid drug candidate selection. Without the SZTAKI technology, which links roughly 70 geographically distributed computers of the consortium partners, the speed at which they are processing data would hardly be possible, says István Bágyi, project coordinator. Even though the research process still takes a great deal of human action, the grid can help with recurring tasks. "The grid system is a great solution for such computational calculations that can be repeated. This kind of calculation in drug discovery is, for example, determining descriptors for thousands of compounds," Bágyi adds.

WIDESPREAD USE

NOT ONLY CAN GRID technology be applied to large-scale projects like the CancerGrid, but Kacsuk anticipates the SZTAKI desktop grid technology can be applied to many environments. "We thought that this technology could be useful, not only for voluntary computing, but also smaller-scale projects, like inside an institute or a university."

Creating a network grid within an office is a way SMEs can utilize existing computer functionality without having to pay for a large data center or cluster, Kacsuk adds. "I am excited about this project, because I think it's really the cheapest, most affordable, and easiest way for any organization to create a large computing power system. So practically anyone can do it if they want," Kacsuk says.

Professionals from SZTAKI can help organizations create their own distributed applications by connecting desktops within

SZTAKI HISTORY

One of the early computer grid systems was the Berkeley Open Infrastructure for Network Computing (BOINC) platform, which launched in 1999 and utilized volunteer computers to search for extraterrestrial intelligence through the SETI@home project. Today, the program, which uses radio telescopes to detect radio signals from space, still has 3 million users, according to its web site. The SZTAKI Desktop Grid, which was developed at the Hungarian Academy of Sciences, uses the BOINC platform but has made improvements and extensions to it, including simplifying the programming functions and allowing isolated systems to interact with each other, according to Péter Kacsuk. Also, it is available in a public Web interface or without, so the security can be controlled.

The first SZTAKI grid project was a volunteer computing program that started in 2005 to run a scientific application developed by Eötvös Loránd University. It searches for all generalized binary number systems in different dimensions, which requires an extensive amount of computing, Kacsuk says. So far, 31,000 volunteers have registered their 74,000 computers with SZTAKI.

"It means from time-to-time they provide some computation and then they disappear," Kacsuk says. "In practice statistically, the everyday active is about 10,000 computers. It would cost a lot for us to buy that many computers."

the company to one central server that distributes information to dedicated computers. This requires low-cost server hardware and a configured operating system with BOINC installed, and development of personalized applications, according to the SZTAKI web site.

In the future, financial incentives might be offered to individuals who volunteer their computers to increase interest, Kiss says. "But this is definitely regarded as one of the biggest potentials in the near future," he adds. "It could change how we use the Internet, how we use computing and the computers around us." ★



Providing a normal existence

WINNER OF €1 MILLION FOR DISABILITY PROJECT

When Erzsébet Szekeres started to look towards the future for her mentally and physically handicapped son, Tibi, in 1982, she was so appalled by the lack of options that she decided to set up something herself. “I had no idea what I got myself into,” she says now. “But had I known, I probably would have gone ahead anyway. The state institutions I visited were awful, and the idea that Tibi would have to spend the rest of his life in such a place was inconceivable.”

BY RUNA HELLINGA

WHAT STARTED as an initiative to secure Tibi's future ended up as a large-scale privately run project for the mentally and/or physically handicapped, called the Foundation for Equal Opportunities. Today it provides a home for 77 people in its Csömör facilities and provides meaningful jobs to about 670 people in 19 places all over Hungary.

In recognition of its remarkable work, the foundation recently received the annual Austrian Essl Social Prize for €1 million. The money comes from the Essl family, owners of the home-improvement chain Baumax (see box), and will be used for the desperately needed construction of a new residential home and a hospice for handicapped elderly. “We have a waiting list of

some 200 people who would like to live here, and it is very rare that one of the residents leave, so new places have to come from construction,” says Szekeres.

OWN BEDROOM

A STROLL AROUND THE COMPLEX in Csömör reveals why people don't want to leave. In contrast with state institutions, the facilities are friendly, personal, and cheerful. Set in a large garden with lots of flowers, there are several larger and smaller houses. The main building contains workshops, medical facilities, and small apartments for people who are able to care for themselves, but sometimes need some help. Residents who require more assistance

live in four-bedroom units around a common living room. Every resident has his own bedroom with an adjacent bathroom, furnished according to personal taste and needs. The accommodation is financed from state disability support as well as people's salaries.

Szekeres aims to give handicapped people a normal existence despite their limitations: a job, life in a familiar setting, respect, and privacy. Such a life also includes relationships, and in some cases, having children. Altogether, 14 children were born in Csömör. “I have been



“A job they are good at and can be proud of.”

“Less work is coming to us.”

criticized because of that, but I consider having children everybody's right. There are circumstances when it is impossible, but if couples say they want children, we look carefully into their situation. If we don't see objections, we help them to realize their wish. All couples with children now live outside, but they rely on our assistance.”

GRADUAL DEVELOPMENT

AT THE START, Szekeres managed to secure a piece of land from an agriculture cooperative in Csömör, near Budapest. An architect voluntarily designed a complex of several buildings. “We decided for a gradual building program. There is no sense in setting up a large project without the means to run it,” says Szekeres, who from the beginning regarded a sound business model as a precondition to success.

Communist law offered no possibilities for private residential facilities, so workshops and training facilities were the first priority. The foundation offers a diversity of jobs in agriculture, gardening, and trades like wood processing, handloom weaving, construction, as well as catering. Products made by the handicapped, like ceramics, candles and needlework, all unique single pieces, are sold through a Baumax outlet in Budapest, via the Internet, and through informal channels.

Also, packaging and assembling is done on commission for companies. It's often simple work, but done with great dedication and precision by people who are visibly proud to earn their own bread despite their mental or physical limitations. “Regretfully, we also feel the pinch of the crisis, as less work is coming to us,” Szekeres says, adding that more packaging and assembling assignments would be a great help for the foundation.

SOCIAL SKILLS

ABOUT HALF OF THE RESIDENTS and coworkers grew up in institutes which in no way prepared them for a life outside. “When they first come here, they need to learn everything: from social skills and taking care of themselves to a trade with which they can make their living,” Szekeres says. “We start with an assessment of a newcomer's wishes, capacities, and needs with regard to medical treatment. He gets a tour [of] all the workshops, because we want everybody to do something he likes. Once people decide a trade, the workshop's group leader has to find out what their skills are and ensure they get a job they are good at and can be proud of.”



In some cases, people actually turn out to be good enough to look for a job elsewhere. “Last year, some 24 people eventually found a job outside.”

The foundation may be more than she had bargained for, but Szekeres is still full of future plans. Expanding the catering business is one of them, she says during a lavish lunch consisting of leftovers from the previous day's festivities when a new building was opened. The excellent food, entirely cooked with ingredients from the foundation's farm and greenhouses, could be served at any festive buffet, which is sometimes the case. But Szekeres wants more. “As we are near the highway, I would like to open a motel with restaurant and party facilities, staffed by our own people. It would not just be a great job possibility, but also help to fight prejudice.” ★

A CHRISTIAN OBLIGATION

The yearly Essl Social Prize was established by the Austrian Essl family in 2008. The Essls, owners of the home improvement chain Baumax, consider private corporate social responsibility as an obligation to their Christian faith. Apart from social initiatives, they support contemporary art, music, and energy efficiency projects.

One of the Essls' initiatives is the Baumax Human Program. Every Baumax outlet in all eight countries where the company is active is involved in a regional initiative that supports disabled people. Sometimes, the shop sells products made by them or it organizes joint holiday and sports events. Every Baumax also employs some handicapped people. In many cases, services such as the maintenance and care of parking lots or the restocking of shelves are contracted out to social services and welfare institutions. Since 2007, the company also has an intern enterprise prize, the Human Award, to recognize special social activities and initiatives with Baumax outlets.

Not just education

HUNGARIAN
FULBRIGHT
PROGRAM
CONSIDERED
THE BEST
IN EUROPE

“When I was in New York on a Fulbright scholarship, I saw the completely different approach Americans have towards their patients. Hungarian dentists don’t learn to talk with patients. So back home, when I became a dean, I introduced patient communication as a subject for our students. We also took our teaching methods – using actors in the role of patients – from what I learned during my stay in the US. At present, we are still the only faculty in Hungary which teaches that subject,” says Katalin Nagy, dean of the Faculty of Dentistry at the University of Szeged.

BY RUNA HELLINGA

IN 2002, NAGY – an oral surgeon specialized in the post-operative restoration of head and neck tumor patients – spent several months at the Memorial Sloan-Kettering Cancer Center in New York on a Fulbright research grant. She is one of some 800 Hungarians, students, teachers, and researchers who took part in the Fulbright program in the past 30 years, spending some months or a year at an American university. In return, about 850 Americans visited Hungary.

The Fulbright program is widely considered one of the flagships of the American educational system. Senator J. William Fulbright established the 60-year-old international exchange

program. He saw it as tool to improve international relations and reduce the danger of war “by producing generations of leaders who, through the experience of educational exchange, will have acquired some feeling and understanding of other people’s cultures and of differences among these cultures.” Worldwide, almost 300,000 people have participated in the program ever since.

American Fulbright scholarships were introduced in Hungary in 1978, as a sign of the thawing relations between the two countries and a recognition of Hungary’s more independent attitude towards the Soviet Union. For the same reason, President Carter had earlier that year already decided to return Hungary’s most important state symbol, Saint Stephen’s crown, to the country. The crown had been in Fort Knox since 1945, when a Hungarian colonel handed it over to the US military in order to save it from the advancing Red Army.

BROADER PERSPECTIVE

IN THE FIRST YEARS, the Hungarian Fulbright program was run by the American Embassy in Budapest, but since 1992 it has been governed by a bilateral commission, says Michael. J. Hurley, public affairs officer for the embassy. There are some 30 places available for Hungarians to travel to the US every year, and according to Hurley, American universities are quite eager to host Hungarian grantees because they are known for their high academic standards. Regretfully, he adds, Hungarian interest in a Fulbright grant has somewhat diminished in the last few years for a number of reasons.

“Experience
another culture
beyond the
normal clichés.”



KATALIN NAGY

For one, the program has been getting serious competition, most importantly from the European Erasmus program, but also from Great Britain and Australia, which established their own scholarship programs. Secondly, there has been limited attention for the program in recent years. “Many universities did not advertise our road show, and many students and even universities themselves don’t even know Fulbright exists,” says Hurley.

Image is part of the trouble, agrees László Balássy, CEO with Citibank Hungary and recently appointed board member of the Hungarian Fulbright program. Balássy, who is not a Fulbright alumnus himself, intends to make the program more business savvy. The program is perceived to be very academic, he says, and such an image can scare off possible candidates in a time when people are increasingly worried about their future, even if the program covers a wide range of subjects. Amongst alumni, one can find all sorts of occupations, from medical doctors, physicians, and economists to IT specialists, political scientists, and arts and music students.

“A Fulbright grant is much more than just an educational opportunity,” says Nagy, who also joined the board recently. “It gives people the chance to experience another culture beyond the normal clichés. Thanks to the program, I could spend a couple of summer months in Manhattan, the most exciting place in the US, which I enjoyed very much.” That broader international perspective is one of the real values of the program, says Balássy. “It is very important in a time when an increasing number of Hungarians seem to worry about the growing internationalization of the country and turn their backs to the outside world.”

Also, the program is an important international networking tool, Nagy adds. “Within the associations of Fulbright alumni one stays in touch with other former Fulbright grantees. And then there is the senior Fulbright fellowship, a follow-up to the original grant. That gave me, for instance, the opportunity to invite my colleagues from New York back to Hungary for a couple of weeks. Such contacts gave me the chance to follow up on my American experience and visit the University of [California] Los Angeles.”

FINANCIAL WOES

The Fulbright program is financed by the US and the Hungarian government, and like any other institution, depending on public money, it suffers from financial restraints. Fulbright students still get a whole year’s grant, but Fulbright researchers and teachers have seen their allowances diminishing in the past few years. “The time they can stay gets shorter and shorter, and their grants are not enough to cover basic living expenses,” says Nagy, who paid half of her New York stay out of her own pocket. To make up for government cutbacks, the Fulbright board plans to attract more private sponsorships. In the past, the program has also relied on private sponsors, who sometimes give money for a dedicated grant named after its benefactor. Still, sponsorships may seem an improbable source of money in a time when most companies are reducing their corporate social responsibility expenses, but Balássy is not that pessimistic. “I’m convinced that there are many people at the top who realize the importance of a program like this and are willing to support it,” he says.

Despite diminished local interest, the Hungarian Fulbright program is considered one of the best in Europe, says Hurley. It distinguishes itself because of its well-organized support network throughout the country. For example, the Hungarian Fulbright program has a center where language skills of applicants are tested and educational advisors help students with their application. There is also a support system for visiting students and researchers. “When I went to the States, I had to arrange everything on my own: find a flat, get my papers in order, find my way around,” Nagy says. “But American Fulbright grantees who come to Hungary are assigned a host, not just to help them, but also to make them feel welcome in the country.” ★



One of the flagships
of the American
educational system.

Mixed results

THE CZECH EU PRESIDENCY

Some worthwhile international media exposure, a good start but an unfortunate finish, and a mood of indifference among the population: this seems to sum up the Czech Republic's EU presidency, which ends on June 30. Whether it had positive effects on drawing business to the Czech Republic remains to be seen, but with Hungary's EU presidency coming up in 2011, it is worth looking at the experiences of the Czechs.

BY DREW LEIFHEIT

THINK JUST THE FACT that we went into it, were able to assume the presidency, and be active right from the beginning, that was one of the biggest pluses," says Lukas Sedlacek, who teaches European studies in Prague. He also worked on a Czech campaign to raise awareness of EU accession and on a Czech government web site for providing information on European affairs. "Very few people will even remember the Czech presidency had its government switched in the middle, while you had the Czech minister for foreign affairs meeting with US President Barack Obama in Prague on television, which will definitely help the Czech brand," he says. "The Czech Republic would never be able to be seen on television this way in foreign affairs outside of the EU."

The most high-profile issues of the Czech EU presidency were two crises faced at the beginning of the six-month term: the gas situation with Russia and the Gaza crisis in the Middle East, Sedlacek explains. "I think we did quite well in both areas – we were quite active. It was at the beginning of the presidency, so I don't think people expected us to act so quickly and to really get our hands

A PEER'S VIEW

The Czech EU presidency was important to countries like Romania, who sent diplomats to Prague specifically for the Czech term, says Diana Tase, stationed at the Romanian Embassy in Prague since January. According to her, the Czech Republic achieved numerous objectives on the European and regional agenda, despite unforeseen international and domestic developments. "It is a fact that the Czech Republic managed to negotiate and to reach an agreement on approximately 50 legislative proposals in the Council of the EU since January 2009; moreover, the majority of such legislative proposals were passed by the European Parliament without any modifications." Tase adds that Bucharest was highly supportive of the Czech presidency's commitment to things like a common response to the global economic crisis and to its support for the proposed Nabucco natural gas pipeline project.

Obama's
visit to
Prague:
good for
the Czech
brand.

EU2009.CZ



dirty.” According to Sedlacek, expectations for the Czech presidency were low elsewhere in Europe. He says French political cartoons portrayed the EU presidency being held by a backward Eastern European country, despite Slovenia already holding the post successfully last year. “Everybody [in Europe] was kind of silent because they were kind of suspicious. But there wasn’t much reason for it – we were a new-member state, but there have been smaller states like Denmark that have seen the presidency and done a good job, so it’s not about size,” he says.

The Czech presidency had three priorities, the so-called ‘three Es’ – external relations, energy, and economy. The external relations priority was at least partly successful, by having US President Barack Obama come to Prague and then a separate Czech-US summit, Sedlacek says. The energy priority involved handling the gas conflict, so that at least didn’t go too badly, and nothing much was resolved in the field of economy. The fact that halfway down the line of the presidency the Czech government fell – a first in EU history – “will kind of overshadow the positive aspects of it,” he thinks.

LITTLE ITALY

INDEED, THE CZECH PARLIAMENT received a no-confidence vote in late March and a new interim government with economist Jan Fischer as prime minister came in on May 8. “They are unknown faces, no one anyone has ever heard about. These people have to be briefed very quickly, they don’t have any contacts in Europe, don’t know who they meet, and what has been accomplished so far in negotiations. It’s very unlikely that we’ll push through anything significant until the end of the presidency,” Sedlacek says.

Just before the old government left, it organized several international summits, but they may not have been as successful as hoped because participants didn’t send their highest political figures or government ministers, Sedlacek contends. “It demonstrated the fact that they don’t see much point in agreeing on something with this government when the next day it’s not going to be in power.”

The changeover during the presidency also doesn’t show stability. The country had five governments within six years. “It’s becoming a small Italy in the middle of Europe,” he says. “So I’m not sure if this brings confidence to investors, although usually they don’t differentiate between Poland and the Czech Republic – companies know they’re in the EU and that’s enough for them.”

Czech President Václav Klaus’s attitudes have not helped to advance Czech interests within the EU either, according to Sedlacek. “The Czech president being a euro-skeptic doesn’t help the image of the Czech Republic, because the country is seen largely as euro-skeptic, which is actually not the case. The majority of the public is pro-European, but that single figure has created a very strong image.”

HUMBLINESS

AS FOR TIPS for other countries in CEE who will head the EU in the future, Sedlacek says it’s important for countries to listen to their



peers, who want your country to do well. “Secondly, it’s always better to assume the presidency with humbleness than with too much confidence,” he contends. “There was a Czech campaign in the fall which translated as ‘We will sweeten it up for Europe.’ It was meant to be a campaign only for the Czechs, but that’s a bad excuse in the age of YouTube and globalization. The ad was overconfident – ‘We will show them how to do it’ – which raised eyebrows in Brussels. It created too-high expectations, which is always damaging.”

He says that competencies and stances need to be clearly defined, so as not to send mixed messages, and that the presidency should be active from start to finish. Sedlacek’s last piece of advice: don’t let your government fall in the middle of the term. ★

THE STREET VIEW

Their answers seemed to be nearly unanimous, at least on the streets of Prague. To most Czechs, the fact that their country headed the EU for six months didn’t mean much, though there were exceptions. “I think we introduced ourselves as a good organizer,” says Jarka Vitámvášová, a 31-year-old Czech woman who coordinates an international exchange program in Prague. “It was good for us as a nation because I still hear from some people that, ‘We are not important as we’re just 10 million people.’ Standing first in Europe was important.”

Still, the response of one 70-year-old female Czech pensioner sitting in a small square was more typical. While she has heard nothing concrete about the Czech EU presidency, she believes it cost her country money. “Something positive will come of it, but I don’t know what exactly,” she says, contending that the EU has nothing to do with retired people like her. And a nicely-dressed Czech man in his early sixties sums it all up, saying: “The European negotiations go through us now, nothing more. It doesn’t matter that much.”

Rating agencies

REMINISCENT OF AN OLD, FAILED SYSTEM

They are said to be responsible for the current crises, but are still operating. Who are they? They are the credit rating institutions, with Standard & Poor's, Moody's, and Fitch as the leaders. Their ratings have been influencing thousands of securities all around the world for many decades. Their downgrades on Hungary's debt and currency have affected Hungarian assets many times. Although the widely anticipated downgrades were the consequences of domestic economy policy, coupled with the negative sentiment in the international markets, they were able to trigger a sell-off of the Hungarian securities.

BY KORNÉL SARKÁDI SZABÓ, CASHLINE SECURITIES

THE CREDIT RATING AGENCIES work like the banks when consumers apply for a loan: they try to evaluate the risk of the applicant based on expected income, debt, and other factors. Similarly, the agencies analyze and provide ratings for countries, companies, and banking sectors, and provide these indications to investors. They would predict, for example, how much risk you have to bear if you invest in such an assets or what is the likelihood of a default. The risk categories

reflect not only the risk of the assets, but may administratively impact investors' decisions, as here are thousands of funds that decide their investment policies based on the ratings of these agencies.

Using information from the past, these credit rating institutions set up proxy functions that model the future of a company, country, or a region related to their financial situation, funding need, or debt level. Since these models are designed using past relationships, they are just not working anymore in the current crisis. Another problem is the lack of resources in terms of both data and human capital. The time span used for projections is usually not long enough, and there aren't enough employees, so they are unable to credibly and precisely analyze thousands of assets.

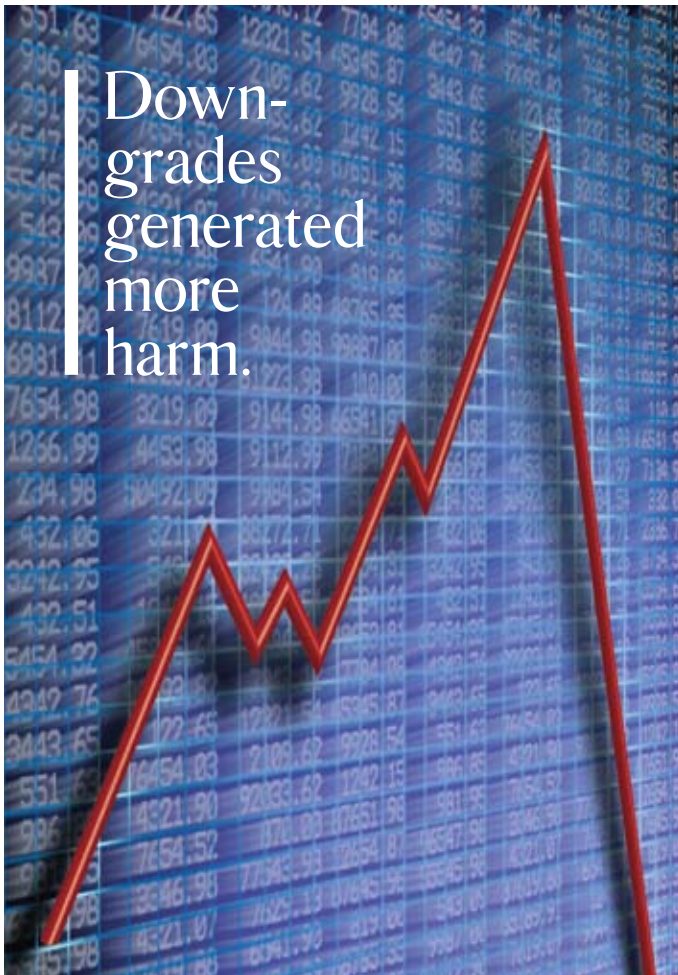
As a result, ratings lose their preventive character and objectivity. The credit ratings issue warnings only within an existing economic trend, but risks are not addressed case-by-case when the whole economic climate changes. In other words, rating agencies work with quantitative tools but are not examining structural and qualitative changes. For example, they precisely calculated all possible correlations between mortgage bonds and other assets in the US a few years ago; however, nobody asked the question what if the whole housing and mortgage market goes down 20%. All of the assets related to the US mortgages had top ratings in 2007, but risks are totally different in a boom than in a bust. These institutions did not identify system risk. They identify risk only in relative terms which means that they compare an asset, a country, or company to another (identifying rating categories or levels). However, they do not set up measures in absolute terms.

The contribution of the agencies to the crisis is huge. Additionally, when economic problems surfaced, the downgrades from the agencies even increased the panic and generated more harm.

In my opinion, the rating agencies do not provide real economic added value, although they still cannot be substituted. They became too much of an autocratic unit, reminiscent of an old, failed system. We can just hope that with the new expected regulation in the financial markets, the rating agencies will also adapt their activities to the changing winds.

★

Down-grades generated more harm.



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Pécs has fallen

Pécs has fallen, but the country cannot be held either. Such a “message” is usually sent by military leaders to the politicians of a country in a war scenario. However, in our case, it was symbolically sent by Katalin Szili, the Parliament speaker and Socialist candidate in the mid-term mayoral elections in Pécs, to the leadership of MSZP so that they should get prepared even for the worst.

BY TAMÁS KERN, SZÁZADVÉG INSTITUTE

THE VOTE IN Pécs – a surprise even to political analysts and the victorious Fidesz itself – proved unequivocally that the public support of the Socialist Party is in ruins even in Socialist “citadels”, which is no doubt a forecast of the tragic results for the governing party in the EP elections held in early June.

Nonetheless, the Bajnai government – following its program and the schedule as announced – is carrying on with its work. Legislative work is being done as planned; the new prime minister displays the image of an active politician. Moreover, certain signs of improvement can be perceived in the state of the economy after the tragic situation of the last few months (e.g. stabilization of the forint). It seems that the market has placed temporary confidence in the new government. The fact that the IMF and the EU have permitted the budgetary deficit to be one percentage point higher than planned, i.e. 3.9% in 2009, can be seen as a sign of that. However, the cabinet and the Socialist Party could not achieve one thing: to restore the confidence of the public.

There is awareness that internal tensions continued to intensify within the Socialist Party after the failure in Pécs, and voices that want to make the former prime minister, Ferenc Gyurcsány, liable for the expected defeat in June already now have become stronger

(e.g. Tamás Suchman, and Mónika Lamperth). This means that demarcation from the governance work of the previous seven years has already started within MSZP. We should consider, however, that this is not a first step in the philosophical, ideological debate started for the renewal of the party; it is more just that a certain push for positions has started for the period after Gyurcsány. As promised, the former prime minister keeps silent, or he keeps waiting. His responsibility is beyond question, but it would be too early to speak about the end of his political career.

All in all, the internal crisis of the party might render governance insecure, as it has already shown by the softening up of the property tax (the lower threshold is now Ft 30 million instead of Ft 3 million). An eventual significant defeat in June could aggravate the panic within the party, which might even lead to early elections.

The situation of the governing Socialists is worsened by the fact that SZDSZ, as external supporter to the government, is in an even more difficult state than MSZP. Since its departure from the coalition, the liberal party has been unable to decide whether they want to operate as a government or rather as an opposition party. Its own voter base could not forgive for this insecurity, so that we have to face the scenario when SZDSZ will be another party from the time of the original political changes that will not become a member of the European Parliament between 2009 and 2014. And that is only the short-term consequence in the life of the party.

All this while Fidesz is leaning back, exploiting the public's discontent against the government and MSZP, and is getting ready for the election victory. This is a politically pragmatic stance, but it is too little for governing. ★

The cabinet and the MSZP could not restore the confidence of the public.



PHOTO: WWW.KORMANYSZOVIVO.HU

Extremists gain influence

Due to the impact of the global economic crisis, MSZP has not been able to pursue its left-wing economic policy for the last few months. The party cannot make any more promises, since it is clear that such promises would overstrain the country's capacities. Meanwhile, Fidesz, as an opposition party without any governmental responsibility, can at the same time still act as the advocate for social security, promising tax cuts, and state support.

BY KORNÉLIA MAGYAR, PROGRESSIVE INSTITUTE

IT IS LEGITIMATE to ask why Socialists and their former coalition partner SZDSZ are backing a government which is introducing a “painful” crisis-management package instead of calling for snap elections, accepting temporary losses, and shifting the responsibility for the inevitable steps to Fidesz. As a result, a rebound in popularity might set in for the social-liberal parties soon, which would give them better chances for the local governments' elections in fall 2010.

Disastrous popularity ratings are certainly one of the main reasons. According to opinion polls, MSZP has 14–18% support among those who will definitely vote, while Fidesz reaches a stunning 66–70%. This means that Fidesz will easily gain 20% more votes than its opponents, and thus, it will have the necessary mandates for a two-thirds majority in Parliament. For the Socialists, this is still the worst-case scenario, not only because Fidesz has been threatening the government for months to hold them accountable if they win the elections, but it is also unclear what the new government would do with their newly gained power. A two-thirds majority enables the incumbent to change the constitution as well as the political system and its procedures, and, for example, introduce a presidential or half-presidential system. MSZP might also hope that good crisis management can help it to reestablish its popularity. However, further aggravation of MSZP's popularity ratings and/or strict financial measures might lead to mass protests which could unsettle parts of the Socialist faction. The outcome might be snap elections.

Meanwhile, all Fidesz has to do is sit and wait (keeping up their strategy of not taking any responsibility and thus no risk, opposing every step the government takes), but there is much more at stake for SZDSZ and MDF. Both parties fear that they will not be able to get past the parliamentary threshold of 5% in 2010. Most surveys indicate 3–4% of votes for each, but in May, some pollsters even predicted lower rates: 2% for SZDSZ and just 1% for MDF. This is why the June 7 elections are so crucial for them. Small parties traditionally achieve better results at EP elections than at national polls. If SZDSZ and MDF cannot get good results



this time, it is highly unlikely that they will be able to do so in 2010. To make things even more complicated, both parties are fishing in the same pond: they are trying to appeal to the same group of market-oriented, pro-capitalist voters (roughly 8–10%). So while they are joining forces to fight the “two big ones”, they are also forced to push the other one aside wherever they can.

Another crucial question of the EP elections will be whether the extreme right-wing Jobbik will make it into the European Parliament, and if yes, whether the party will be able to capitalize on this newly won prestige and media attention, gaining seats in the Hungarian Parliament in 2010. Jobbik primarily appeals to the strong racist sentiments and prejudices towards Gypsies among Hungarians and shows great proficiency in using the media's sensationalism for their own purposes. By April-May, Jobbik's support had already reached 5% or more according to several surveys. Becoming a parliamentary party might also have negative side effects in the long run for an extremist party which promises a “real change of the system.” National and international experiences indicate that the popularity of parties with anti-elitist rhetoric and an outsider image erode rather quickly due to the consolidation brought about by well-paid political positions. ★

CHINESE INVESTMENTS

CHINESE NETWORKING and telecommunications equipment company Huawei will begin at two new manufacturing bases in Hungary this year, the business daily *Világgazdaság* reported. The production bases will be located in Komárom and Pécs, providing a total of 700 jobs – 280 in 2009 and 420 more in 2010. The company plans to produce \$800 million in equipment this year and \$1.1 billion in equipment next year. Huawei has operated a commercial office in Hungary since 2004, currently employing almost 100 people in the country.

Also, Hungary and China signed a letter of intent on opening an office of the China Investment Promotion Agency (CIPA) in Hungary, its first abroad, the Hungarian Investment and Trade Development Agency (ITD Hungary) told MTI. The office is expected to open in the second half of 2009. China picked Hungary as the location for the office because of its central geographical position, direct flights between Budapest and Beijing, the country's skilled workforce, and the fact that Hungary is the only country in the region where the Bank of China is present, ITD Hungary said. Compared to other countries in the region, Hungary also has the largest population of Chinese people. "China sees Hungary as a regional distribution, manufacturing, and logistics center," said ITD Hungary director György Rétfalvi.



China has invested \$600–800 million in Hungarian companies, mainly in the areas of information and communications technology, electronics, telecommunications, and research and development. Some 5,000 Chinese companies operate in Hungary, including many multinationals. Between 20 and 30 Hungarian companies have invested \$100–200 million in the areas of environmental technology, sewage treatment, renewable energy, dairy industry technology, building materials, and establishing industrial parks. In 2005, ITD Hungary set up a Hi-Tech Transfer Center in the Chinese city of Shenzhen to help the entry of Hungarian SMEs onto the Chinese market. ★

GOVERNMENT OBJECTIVES

SINCE THE CRISIS BEGAN in October last year, 80,000 jobs have been shed in Hungary, while 12,000 new ones have been created due to new investment, said Prime Minister Gordon Bajnai on May 15 at a meeting of the Hungarian Foreign Press Association. The purpose of the crisis management government is "to achieve a turnaround in the reform process, implement some fundamental changes, and get the country back on the growth path again," Bajnai said. "Jobs are being shed all over Europe; the main question is where these jobs will be recreated after this crisis."

According to the prime minister, the determination of the new government – sworn in only in April – is visible in the pace at which Parliament has adopted changes. The MSZP-SZDSZ majority, in many cases supported by members of MDF, said yes to a sweeping pension reform and the first tax changes in the first half of May, and major social system changes in the



second half of May. In the second half of June, it will vote on more tax changes for 2010, the strengthening of financial controls, and several criminal law changes. ★

MORE THAN 50 SERVICE CENTERS

ITD HUNGARY IS WORKING on projects to bring ten regional service centers of multinational companies to Hungary, ITD Hungary head György Rétfalvi said. The projects, of which more than half involve American companies, include between 100 and 1,000 jobs apiece and could create 4,000 positions. So far this year, ITD Hungary has helped three companies make decisions on setting up or expanding service centers in Hungary: BP will open a center in Budapest with 1,100 staff; IBM will add another 200 staff to its service center in Székesfehérvár; and Vodafone will build a center to be staffed by 500 in Miskolc. More than 50 service centers have been set up in Hungary since the first one was established in 2002. The projects generated around 20,000 jobs. ★



ZSOLT PÁVA

FIDESZ AND JOBBIK WIN EP ELECTIONS

THE RIGHT-WING OPPOSITION coalition Fidesz-KDNP won the European Parliament (EP) elections in Hungary with 56.37% of the vote, gaining 14 of the country's 22 EP seats. The governing MSZP came in second with a low 17.37% (four seats). The major surprise was the very strong showing of the extremist right-wing Jobbik, which got 14.77% or three seats. The center-right MDF gained one seat with 5.3% of the votes. The liberal SZDSZ, represented in the Hungarian Parliament and an important supporter of the Bajnai government, won only 2.16% of votes and didn't make the 5% threshold. Politics Can Be Different, the Workers' Party, and the MCF Roma Solidarity party didn't make it either. A total of 36.28% of Hungary's eligible voters participated in these EP elections. ★

RESOUNDING VICTORY FOR FIDESZ IN PÉCS

THE CANDIDATE of main opposition party Fidesz, Zsolt Páva, has won the mayoral election in Pécs. "Citizens have made a decision, which must be respected," said Katalin Szili, Hungary's parliamentary speaker and candidate of the governing Socialist Party (MSZP), to MTI. Pécs used to be a socialist mainstay. MSZP spokesman István Nyakó said that he hoped Páva would develop a fruitful cooperation with socialist and liberal deputies of the city council. Páva won very decisively, receiving 36,570 valid votes, while Szili garnered only 18,981 votes. Pécs has a population of 152,000. Out of the city's 127,198 voters, 44% turned up at the polls. The city elected a new leader following the death of Mayor Péter Tasnádi in January. ★

LAYOFFS

SÁGA FOODS will lay off 500 of its 1,800 workers, gradually carrying out the redundancies until the end of November. SáGa said that it was forced to cut costs and boost efficiency in light of further worsening market conditions. Artificial fertilizer maker Yara Hungária will permanently close its plant in Peremarton and lay off 105 workers. Output of the plant already more or less stopped in October. Scottish product label maker Worldmark will shut down its plant in Tatabánya, laying off about 70 workers. It will only continue its warehouse and customer service activities at the base. Worldmark's partners, multinational electronics companies, have also left Hungary and the company can meet existing demand with capacity at its plants in China and Mexico. The plant in Tatabánya was Worldmark's only production base in Europe outside of Scotland.

By the end of the year, Austria's Tondach will lay off 50 people at its two roof-tile plants in Békéscsaba because of the economic crisis. ★



SAMSUNG: FROM SLOVAKIA TO HUNGARY



KOREAN ELECTRONICS maker Samsung is moving some of its plasma television production from the town of Galanta, Slovakia to Hungary. Samsung will reassign 400 of its staff in Slovakia because of the move. The step will cut down logistical costs as the modules for the plasma TVs are already made in Hungary. Samsung's center for LCD TV production will remain in Slovakia. The move was prompted by the economic crisis and the weakening of regional currencies. The fact that Slovakia now uses the euro is a major competitive disadvantage for manufacturing companies in the country. ★

OTHER INVESTMENTS

HUNGARIAN SHOE company Bar and Co. Europe plans an investment of more than €10 million in Bonyhád that will create 864 jobs, ITD Hungary told MTI. Shoe companies in Bonyhád recently shut down because of a fall in demand. Bar and Co. aims to develop the unused capacity further. It will make high-end shoes with "airflow" technology, developed by Hungarian István Baricz. The shoes will initially be sold on markets in Western Europe and in the Gulf states.

Hungarian screw and connecting element wholesaler Iron Trade inaugurated a Ft 1.5 billion logistics center in Tatabánya. The center doubles the company's warehouse space, but the actual capacity will more than double thanks to a new logistics software. ★

POLAND WINS BATTLE WITH EC TO LIMIT GMOS

POLISH GOVERNMENT representatives managed to convince the European Commission (EC) that the country is allowed to limit the cultivation of genetically modified organisms (GMO). In 2007, the Poles wanted to change the law so that Poland would be GMO free, but the EC did not agree to this. Now, the prohibition of cultivating GMO will be carried out on the basis of declarations from farmers themselves, who will have the right to call their land "free from GMO." According to the latest poll, 49% of the Polish public wants the introduction of GMO-free terrains even if this would mean a rise in food prices. (*Warsaw Business Journal*) ★



POLAND INVESTS IN RENEWABLES

A TOTAL OF ZLOTY 5 billion (€1.1 billion) has been earmarked by Poland for investment in renewable energy in a bid to reach EU emission standards. "It's a lever to increase the value of the whole renewable energy market in Poland to some zloty 15 billion," Polish Environment Minister Maciej Nowicki was quoted as saying. Half of the money will come from the Polish environment protection

CEE GROWTH REVERSAL

EU NEWCOMERS, along with CIS countries, are expected to see the largest growth reversals among emerging market regions from 2008 to 2009. Regional growth is set to contract in 2009, with almost every country in CEE either in or close to recession. As of May 9, the EU-10 countries are projected to contract by around 3% in 2009 and to reach zero growth in 2010, down from growth rates of 4.1% in 2008 and 6.2% in 2007 (World Bank). There will be double digit declines in the Baltic countries, and maybe in Romania and Bulgaria, and a severe recession in Hungary, which are partly offset by almost flat growth in Poland, which is expected to benefit from comparatively stable domestic demand. (*RGE monitor*) ★

WORLD BANK CRITICIZES CROATIAN MAYORS' SALARIES

ACCORDING TO WORLD BANK data, an average monthly mayor's salary in Croatia is €2,658, compared with ministerial earnings of €2,181. Although most local governments in Croatia do not earn enough money to work without state financial help, the question has arisen as to why there is a discrepancy in the levels of payment between the various offices. The World Bank has commented upon the inordinate expense of administration which does not produce an efficient service, adding that Croatian public administration lags behind new EU members. As a way out from this problem the Bank suggests reducing the number of employees, mostly those in local government. (*Croatian Times*) ★

fund and regional authorities, the other half from EU funds. The EU has pledged that 20% of its energy will come from renewable sources by 2020, but Poland only needs to produce 15% of its energy from renewable resources by that date. Nowicki thinks that Poland will easily be able to achieve its target and might even be able to push it up to 20%. (*Warsaw Business Journal*) ★

ROMANIAN-BULGARIAN DANUBE BRIDGE

THE DANUBE BRIDGE connecting Romania and Bulgaria at Vidin-Calafat will be ready on time, Bulgarian Prime Minister Serghei Stanishev declared when visiting the construction area on the Bulgarian side to witness the progress. The bridge will be finished by the end of 2010 and Stanishev assured that there will be no delays. Romania and Bulgaria signed an agreement for the construction of the bridge in 2000 and the total costs of the project is estimated at €225.8 million. The bridge will be part of the European transports corridor to Istanbul. Currently, there is only one bridge across the Danube between the two countries, all the way at the east of both countries. (*Romania Hotnews*) ★



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Holiday at home?

BOOKINGS
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STRONG DESPITE CRISIS

Marketing professional Fruzsina Dell hasn't just planned her summer holiday trip for this year – she and her boyfriend know where they're going for the next two summers after this one. "We wanted to go to Portugal," she says, "but the airfare was a bit more expensive. If we'd made the booking earlier, maybe it would have been cheaper." So this year they'll go to Tuscany in Italy. Other than that change of destination, Dell explains that concerns over the global economic crisis are not changing her summer plans. They have budgeted about half a million forints for their big trip this year; they'll also take some shorter trips, probably within Hungary.

BY DREW LEIFHEIT

IF BOOKINGS AT some of Hungary's major travel agencies are anything to go by, many other Hungarians don't appear to be concerned with the economic crisis either and will go on their holiday trips as they do every year. "It's not as bad as it seems because we were the first to be hit by the crisis, so we got prepared," explains Budavár Tours's marketing director Balázs Lizán. With ten years in the travel business, he actually admits that he's seen worse years.

LESS LAST-MINUTES

HUNGARY'S TOUR operators have been struggling with the wide fluctuations between the euro and the forint, says Lizán. "According to Hungarian law, we must stick to the prices in our catalogues, including an exchange rate. If the euro gets strong, we can increase our rates by as much as 8%, but as we calculated our prices for this year last year, we just can't see what it will do." New

government regulation, giving tour operators the right to adjust prices accordingly up to 20 days before a trip, is changing that. And on the other hand, there are sometimes differences in when the reservation is paid for and when the agency has to pay its bills. Budavár Tours has made a few million forints this way, says Lizán. "The competition is great, so we must pass on such earnings to customers with last-minute packages."

But so-called "last-minute" deals may be few and far between this year. "This is the first summer when there will be many fewer last-minute tours than what our customers have experienced in the past. Everyone in the industry is thinking twice about charter flights and which markets they should enter," he says, adding that some of Hungary's weaker tour operators are likely to go under by the end of the season; they could merge with larger ones or use strategic cooperation with some of their peers. Cash flow is typically the biggest problem in what is otherwise an easy business, Lizán believes. "If we fail, it's at least partly our fault, because we had time to prepare."

COOPERATION A LIFESAVER

THE GLOBAL FINANCIAL CRISIS has actually created a spirit of cooperation among tourist agencies on the Hungarian market, who are marking out their territories and



Domestic
tourism
may be the
big winner.

Last-minute deals may be few and far between.

then actually sharing their offerings with other tourist agencies, according to Vista Travel's marketing manager Edina Lovas. "We're supporting each other and it's a good thing emerging from the crisis, but only the strong players will be standing at the end of the summer," she says, confirming that the level of bookings this year is typical for Vista.

Lovas also sees a shift in Hungarian travelers' willingness to spend money on summer vacation. "People are getting tired of the crisis. It's not as bad as at the beginning of the year, and everyone wants to keep their holiday. Hungarians won't buy a TV, but they'll still go on holiday. It's important to have a rest, and if they're used to going every year, it's hard to give that up." If they do cut back a bit, she believes they'll go to Croatia by car instead of flying to Greece, or maybe they'll go for only a week instead of ten days. "Cheaper destinations and those closer to Hungary are more popular this year," Lovas says. "Croatia and Austria are always the most popular destinations, but we are selling trips to Italy, Greece, Turkey, and Tunisia – the levels to these destinations are all the same. Some people are booking two-to-three shorter trips, going to cities nearby like Prague, Krakow, and Sighisoara, while in Croatia they're going to the sea."

Lovas says for those going for a week or two, Spain, Italy, and Greece are the main destinations. She points out that this is not the season for exotic destinations, as it is the monsoon season in Southeast Asia, for example. "We can predict according to the luxury car market, for which there's been no decrease in America. Those who had money before the crisis will have it after, so we're not expecting a big fall in bookings," she explains. Vista is celebrating its 20th birthday and "we're doing well, staying the market leader in air ticket sales for consumers," Lovas says. "For package tours we decided not to get into the charter business, but to have contacts with the market leaders for each destination, so we don't have to take the risk but can sell these for the same price. It gives us a wide portfolio, but we don't have to take the risk."

HOLIDAYS AT HOME

STILL, THE BIG WINNER of the economic crisis this year could be domestic tourism, Lovas believes. "Domestic bookings are increasing, which was the tendency last year also," she says. The Hungarian National Tourist Office couldn't agree more. "We've been expecting more domestic tourists for a number of reasons," says Board Chairman Ákos Niklai. "These are mainly financial, forcing them to spend less time abroad. They'll likely take their holidays at the Balaton and other destinations in Hungary."

Lake Balaton, according to Niklai, has come a long way. "There have been enormous improvements in the quality of



accommodation, there's a wider variety of attractions in terms of customer expectations. Fifteen years ago, everyone just wanted to lie on the beach, but that's changed." He adds that the Balaton has become less expensive compared to international holidays, especially considering the weakness of the forint. The Tisza Lake and destinations around Pécs are also increasingly popular tourist destinations for Hungarians.

In terms of guest nights in hotels in Hungary, he says locals and foreign visitors each make up about half. "Both are significant, but we're struggling more with inbound tourists, especially in the field of business travel, because fewer people are coming to Hungary for business reasons." Niklai believes Hungarians will spend less this year on traveling so they can put more money into accommodation, attractions, and food. In this way, he says, they can save money for their second or third holidays this year.

This spring, the Tourist Office ran a campaign promoting 2009 as the year of cultural tourism for the domestic market, *Itthon Láss Csodát* ("Experience a Wonder Here at Home"), while also encouraging hotels to offer special discounts, which are being coordinated through the *Itthon.hu* ("At home") web site. "We've been talking about culture as a kind of motivation," Niklai says. "Of course, in summer you have the attractions of nature like lakes, but wine and food are also excellent focus areas in Hungary." ★



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András Török's Budapest

SEVEN TRADITIONAL SHOPS THAT SURVIVED

CONCERTO

The single most important esoteric classical record shop in Central Europe and a mecca for Budapest expats and Western eggheads – those who still think analog is better than digital, and consider LPs far superior to CDs. The shop is in the old Jewish quarter, and the street name means “Drum street.” Few tourists ever set foot here, though it's not far from the city center. (Pest VII, Dob utca 33)

FLEISCHER SHIRTS

There are very few people who still buy their shirts custom-made. This shop has remained here, almost unchanged, since the 1920s. The partition between the shop window and the shop itself is made from the traditional, vertically striped engraved glass. (Pest VI, Nagymező utca 7)

GALLWITZ PIPE AND PEARL

The original pipe shop was established in 1880. It survived as late as 1952, when it was nationalized (i.e. confiscated by the state). The family then reopened a miniature shop in their home. After the death in 2003 of the patriarch György Gallwitz, the family decided to move the shop to a street venue not far away. The website (www.gallwitz.hu) was launched in 2005 – a stylish and fitting one with impeccably operating technology. (Pest V, Régiposta utca 7-9)

GRÜNBERGER FURNITURE AND CHANDELIERS

They seem to have been around for a hundred years, even during the communist times. The present owner is the third generation, with

SOMETHING NEW:

PASTRAMI CAFÉ AND RESTAURANT

Something remarkable was born in Old Buda recently; a modern café/restaurant complex with the star chefs of the specialty channel TV Paprika. Kitchen and tables share the same, minimalist space, in a New York (even San Francisco) style. What is stunning is the high-quality design of all the signs and the menu, even the web site (unfortunately not yet in English). It is a great leisure place for personalities, served by personalities. (Buda III, Lajos utca 93-99)



SOMETHING OLD: FOUR “COPPER SOLDIERS” GUARDING PARLIAMENT BUILDING

Parliament is oversized for a country the size of Hungary (it was built between 1887 and 1904 for a much bigger country). The outside decoration is very rich in statues and ornaments of all kinds. One lovely element is the four identical “copper guards with a lance” – two standing on the top of two spires overlooking the river and two at the northern and southern ends of the building. The guards look stocky, grandfather-like, especially when viewed from the side.



his wife a prima donna from the Operetta House, and someone with quite an active social life. This is the right place to order replacements or all the chandeliers for the biggest synagogue in Europe. (Pest VI, Nagymező utca 21)

LAJOS LIBÁL, OPTICIAN

Some of the shop fittings go back to pre-war times – the hundred-odd small drawers for example. Several new shops have computers to examine their customers' eyes. They also have lengthy queues. This shop has none of the two. Mr. Libál is not around anymore. The senior, respectable lady who is referred to in the neighborhood as “Aunt Libál” is called Brassai Józsefné. (Pest V, Veres Pálné utca 7)

PHILANTHIA FLOWER SHOP

The name of the shop means “love of flowers” in classical Greek. The original shop interior and furniture survived from the 1910s. It's the only authentic Art Nouveau shop décor in Budapest; unfortunately, the chandeliers do not fit. (Pest V, Váci utca 9)

UNGER BRUSH PRODUCTS

This is an amazing institution that offers an incredible selection of brushes, from very small to very large, even the type that was used to clean the barrels of the Unicum liquor factory 100 years ago. Explanation and expert advice is free. They even have a catalogue if you cannot decide on the spot. (Pest VII, Dob utca 52) ★

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Stand Bistro

A GOOD ALTERNATIVE

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DINING GUIDE

A varied menu, a fine selection of excellent wines and a cozy atmosphere await those who visit this newly reopened restaurant, managed by Viktor Segal.

BY GOURMANDE

HAVE DUCK-LIVER PATÉ with green salad as the hors d'oeuvre. The portion is tiny but elegantly set and looks most encouraging. The paté is covered with fine fat, but the paté itself provides a strong meaty flavor rather than the traditional taste of duck liver. Neither its color nor its texture meet the standard of the conventional paté; it is a bit too frothy and resembles a liver mousse. The green salad topped with an olive-oil vinegar dressing does not really add to the overall impression.

My next course is an Indian-flavored carrot soup, which looks somewhat bizarre but tastes fine. My only problem is the English ramson which enriches the orange-carrot soup, to improve its texture and also making it a bit more colorful. But except for the typical flavor of the curry, I cannot detect any other aroma; the characteristic garlic flavor of ramson remains hidden.

For main course, I order beef rib with seasoned potatoes and roast chicken breast. The texture of the beef is all right: as a result of steaming, the inside is tender, while the toasted outer layer is crispy, although some fat and a bit of suet is also there and could have been omitted. The spicy jacket potatoes with onions and tomatoes are

fine by themselves, too, but in my opinion they do not go very well with the taste of the beef, prepared in sweet pickle.

The chicken-breast fillet with pearl-barley vegetable risotto, on the other hand, proves to be an excellent choice. The fillet, cut into fine chops and prepared à la sous-vide cooking, is perfect. It is so tender and juicy that it melts in your mouth. The chef managed to preserve the original tastes, the flexibility and the softness of the chicken. It is simply good.

The grains of the pearl barley are well-cooked but still somewhat tough in the center; a handful of cubes of carrot and turnip make the risotto more enjoyable and colorful and it isn't over-seasoned. The risotto harmonizes well with the chicken fillet. I also have ramson cream with this dish, which makes me think of a sorrel puree rather than real ramson, but the result is fine and the cream complements the dish well.

For dessert, I have the chocolate brownie with vanilla ice cream and traditional crème brûlée. The brownie is perhaps too heavy, but it has an intensive palatable chocolate flavor. The crème brûlée is a bit thin, but the sugar topping is fine: caramel that perfectly covers the crème underneath. The crème feels somewhat soft as if it hadn't been cooked long enough. It lacks the characteristic vanilla aroma and rather tastes as simple egg cream.

I must say that, generally speaking, the menu does not provide the reader with a detailed description of the dishes, nor gives any help with the identification. But despite this, and despite the fact that not every dish was perfect, my overall impression of the Stand Bistro is good, and it may serve as an alternative for expensive and trendy downtown restaurants. ★

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).



STAND BISTRO

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Open: Mon–Fri 8am–11pm, Sat 11am–11pm

Happenings

JUNE/
JULY

SUMMER ON THE CHAIN BRIDGE

June 20-August 16

BUDAPEST'S ICONIC Chain Bridge is transformed into a landmark venue each summertime season, when cars are banned from this historic span every Saturday and Sunday to create a watertop fairground of live entertainment, an arts and crafts bazaar, regional delicacies, and much more. Stages on both the bridge's Buda and Pest sides host varied concerts with musical themes changing every weekend, while street performers crisscross the stone crossing to the delight of all ages. The free events begin in mid-morning and last until late at night; log onto www.festivalcity.hu for program details. ★



CHILDREN'S ISLAND

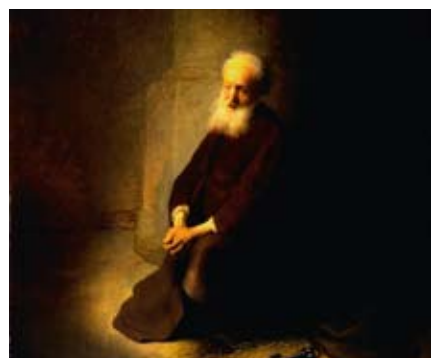
June 6-July 5

FROM LILLIPUTIAN PALACES with princess dress-up attire to climbing walls and handicraft-making stations, this giant playground is found on the green lawns of a Danube River isle just north of downtown Budapest, offering such attractions as a sports park, petting zoo, art tent, and many live concerts, puppet shows, and clown performances. Enjoy family fun in the sun on Óbudai Island (District III, signs lead visitors there from the HÉV commuter train's Filatorigát stop) each Saturday and Sunday from 10am-6pm; check out www.sziget.hu/gyereksziget for info. ★

"HEY JUNE!" FESTIVAL

June 15-27

WELCOMING SUMMERTIME with a bright lineup of concerts by modern Magyar maestros, this annual performance series highlights varied contemporary music that's homegrown in Hungary. The shows kick off with songstress Erzsébet Kiss (pictured) on June 15th, classic rockers Karthago give an unplugged performance on June 18th, and the Pál Utcai Fiúk fuse rock, punk, and dance rhythms on June 23rd – these concerts and several others all begin at 8pm in the Palace of Arts Festival Theater (Pest IX, Komor Marcell u. 1); see www.mupa.hu for ticket info. ★



"HERITAGE OF THE HOLY LAND" EXHIBIT

June 19-September 6

THIS AWE-INSPIRING COLLECTION of sacred artifacts from Jerusalem's Israel Museum – some dating back 9,000 years, including sarcophagi and a fragment of the Dead Sea Scrolls – visits Budapest this summer, offering glimpses at a variety of treasures sacrosanct to multiple world cultures. The display includes a Kashmir Koran, Hanukkah candleholders, an early photo of the Shroud of Turin, and religious works by Rembrandt, Rothko, Chagall, and other master painters, all at the Museum of Fine Arts (Pest XIV, Heroes' Square); visit www.mfab.hu for details. ★

Taking the burden now

“BEFORE THE CRISIS HIT, nobody in Hungary – government, opposition, population – wanted real reforms. But now that seems to have changed, and there is an acceleration of reforms. We are taking the entire burden now, which may be difficult in the short term, but will turn out to be an advantage in the long term, creating growth again for the years 2011–2014, while public debt can go down at the same time. This is what differentiates us from the other countries in the region,” said Finance Minister Péter Oszkó at the AmCham Forum on May 28 at the Budapest Marriott Hotel, which had a very high turnout with more than 150 participants.

Regional positions have significantly changed, with Hungary going in the opposite direction as everybody else, Oszkó said, citing the budget deficit figures – 3.9% for Hungary in 2009 and an average of 6% for the EU – as an example. “Other countries are now only starting to experience the depth of the crisis that is hitting them, while we were the first to recognize the problem and act upon it. We have stabilized the financial situation and are now making the economy more competitive,” he stated.

The new finance minister went on to outline the numerous measures that have already been taken and adopted by Parliament in the first six weeks of the Bajnai government. These include pension reforms, family allowance reforms, the termination of housing subsidies, and measures to introduce energy saving, among others, resulting in savings of Ft 400 billion in 2009 and Ft 900 billion in 2010. And some of these measures, like the pension reform, “will affect Hungary on the very long term, so for 2020, 2025, and beyond,” he emphasized.

The major task of the government now, he said, is to get the economy growing again by changing the imbalanced tax system. “The quickest way to do this, without spending more money,” is lowering the tax wedge on labor, Oszkó argued. This will stimulate more people to go work and is paid for by higher taxes on consumption and luxury. The average tax wedge on average earnings is now 54%, one of the highest in Europe, he said, and that will go down to 51.6% this year and to 45.7% in 2010. More importantly, the marginal tax wedge (the tax on increase in earnings) is currently 71%, “a sure way to discourage people to try and work and earn more.” But that will be around 60% this year and 52% in 2010, he promised.



Oszkó also answered several questions from the public. He acknowledged the negative effect the VAT increase from 20% to 25% has had on tourism, but argued that Hungary had little choice, as the economy relies very much on the export industry and lowering the tax on labor had priority. “But we are negotiating with the tourist industry to find solutions,” he added. He also agreed that the overall burden on business is still far too high. “We are abolishing some small taxes and reducing administration, but this process needs to be continued by the next government,” he said.

In connection with the introduction of a real estate tax, he argued that the tax would only be introduced in the middle of 2010 and that it would affect only 200,000 properties, so its effects shouldn't be exaggerated.

Finally, he said in June the government would also bring proposals before Parliament aimed at widening the tax base, closing loopholes in its offshore legislation, or taking on small companies that don't pay social contributions. “There hasn't been much in the press about this, but these measures are pretty harsh,” he said. ★



Steady as she goes

EMERSON WAITS PATIENTLY
FOR THE TURNAROUND

"THE ECONOMIC CRISIS is definitely having a very serious negative impact on our business," says Country Manager Béla Bánhidi of Emerson Process Management, the local sales division of the global control systems giant headquartered in St. Louis, Missouri.

"A lot of customers have already cut their maintenance and operations budgets and have renegotiated existing maintenance contracts, which is bad. They're also cutting their maintenance, repair, and operation (MRO) budgets. Everyone on the market is trying to reschedule their investments," Bánhidi says. "Almost 70% of the opportunities we had calculated for this year have disappeared completely, being pushed forward to 2010 or 2011, or who knows. This is the situation of this crisis." This sits in contrast to the power business, which is not exhibiting a negative impact, he explains. Competition from firms in Korea and Germany is significant, but opportunities are good for Emerson, which has a worldwide presence.

Still, Bánhidi reports that Emerson Process Management does not have any plans to reduce its head count in Hungary, because the company must be at full strength for when the market rebounds.



BÉLA BÁNHIDI

Out of the 1,100 Emerson employees in Hungary, 40 work for Emerson Process Management, which was founded under another name with just two staff in 1991. Until 2007, the company was led by Miklós Juhász, who became the director for Emerson's Eastern European project and service organization.

As the company's former sales manager, Bánhidi says being at Emerson for 13 years means he's been able to maintain his knowledge of process controls because of the company's new products and solutions, which are innovative. This innovation is evident, he believes, in a recent ranking of automation vendors by *Fortune* magazine in which Emerson came in second after perennial leader GE. "One year ago we were eighth," he says. "The reason we achieved this ranking is because we could achieve improvements in long-term investments for use of corporate assets, quality of management, and also innovation was very significant. Of our income, 36% comes from products developed in the last two to three years; this could be software, hardware instruments, nearly everything that is in the portfolio."

We have a relatively strong service group for each main product, and Emerson has a very intimate relationship with its customers, reports Bánhidi. "Service people should live together with the customer," he says. "Our goal is that for all the main references we have at leading Hungarian companies in the oil, power, or pharmaceutical sectors, each site should have a dedicated salesperson who should be familiar with their daily issues or challenges." Such sales professionals must have a high level of expertise, according to Bánhidi, who says finding new colleagues who are qualified can be a headache. "Usually we can only measure their sales or technical skills if they are able to catch on to the information within a reasonable time here, or not." It's not specifically a Hungarian workforce problem, he adds; colleagues in other countries have shared similar experiences.

One of Emerson's biggest projects is under construction for Hungarian oil and gas firm MOL. Newer projects include a three-year, strategic underground gas storage project for MOL. "Here we have to install instrumentation and controls for 51 wells, which are inserted into the ground to retrieve gas. The facility has three separate gas operator stations where gas conditioning is executed along with a gas conditioning plant."

Regarding Emerson's Project Team, Bánhidi says the company's long-term goal is complete project execution. "This is very important, and my project managers manage the site works at clients: the cabling, wiring, piping works, and in this case, we usually make subcontracts with assembly companies, using a very serious evaluation process to identify potential subcontractors for various activities," he explains. "The goal is not to sell only the product, but the engineering activities as well, so that local staff is able to handle complete automation projects from the design phase up to the trial run or on a turnkey basis," he adds. ★



Taxation Council: Articulating concerns

"THE MISSION OF AMCHAM is to increase Hungary's competitiveness, and the Tax Council has the same underlying objective," says Council Chair Botond Rencz. Last summer, AmCham supported the "Big Four" Tax Reform paper setting out the cornerstones of a fundamental tax reform to enhance global competitiveness of Hungary, he says. "The current economic situation makes an even more pressing case for fast implementation of a fundamental tax reform. Therefore, we are using the 'Big Four' paper as a benchmark for assessing any governmental taxation initiative. Moreover, we are developing a position on corporate income tax and local business tax policy, which the earlier paper did not cover in great detail."

At the time this article was written, the Tax Council was drafting a statement that would take a critical look at the government's proposed tax measures. "There are a lot of changes," notes Rencz. "If one reviews them from overhead, it becomes evident that their cumulated impact is close to a zero-sum game. This is far from the desired tax burden decrease of 3-4% of GDP."

We welcome the introduction of an asset tax (which is predominately a real estate tax) and the governmental intention to raise taxes levied on consumption, he explains. "However, there are a few important questions. Just to mention one regarding asset tax: why does it apply only to about 5% of households?"

Rencz says the council believes that the current tax plan is not going to bring Hungary much closer to its neighbors in terms of tax competitiveness. "Our Tax Council will do everything to articulate these concerns to the decision makers," he adds. ★



SME Committee: Facing new challenges

This spring, the reorganized AmCham Small and Medium Enterprises Committee elected Sándor Erdei as its chairman, who is the CEO of the Dutch-Hungarian company DBH Group that provides complex business services to Hungarian and international SMEs. According to him, local SMEs have two major shortcomings: lack of knowledge and lack of financial capital. "The Hungarian

economy should urgently provide a strong hand mainly to the innovative SMEs, as the future economic success of the country can depend on the development of the competitiveness of this sector," Erdei says.

As he emphasizes, the success of the SME Committee is influenced by its members' activities and fruitful cooperation with professional organizations (e.g. The Hungarian Association for Innovation, Budapest Enterprise Agency, Hungarian Association of IT Companies, etc.), which need to be bolstered. "These organizations should receive a consultant role as well regarding the enactment process so that they continuously support the decision makers with clear, professional proposals," he contends.

According to Erdei, AmCham members' opinions and expectations, and their professional policies in connection with the economy, need to be recognized. Towards these ends, a questionnaire will be submitted to the Chamber's members, of which 209 of the 463 member companies are SMEs, says Erdei, with most operating in the service sector.

Furthermore, he believes a new professional award – "AmCham Outstanding SME Achievement" – should be created within the framework of the Chamber, with the goal of acknowledging successful members and their work. Through its operation, AmCham's SME Committee aims to develop the experience and culture of enterprises, as well as to serve the demands and expectations of members with its expertise and professional guidance. ★



SÁNDOR ERDEI

Regulatory Committee: For effective regulation

THE REGULATORY COMMITTEE is a recently set up committee within AmCham, chaired by Laurent Niddam, a litigation and transaction partner at Szecskay Attorneys At Law. As Niddam highlights, the two main objectives of the committee are to provide meaningful regulatory support to AmCham bodies as needed (board, councils, and committees) and to monitor Hungarian legislation. “In discharging those tasks, the Regulatory Committee will have a pragmatic business approach, not losing sight of the fundamental fact that AmCham is a business-oriented organization and not a codification body. In other words, the Regulatory Committee is not expected to engage in theoretical matters,” he says.

In providing support and resources on regulatory matters to AmCham bodies, legal and other experts will be made available by the Regulatory Committee to participate in the preparation of proposals and suggestions by a given AmCham body to be ultimately submitted to the authorities by AmCham, he explains. “The Regulatory Committee will assist in ensuring the feasibility of the anticipated proposal from relevant legal/regulatory points of view.”

For fulfilling the other task of monitoring and assessing proposed regulations in light of AmCham’s mission statement, and the likely impact that such proposed regulations may have on Hungary’s competitiveness, the Committee will inform the relevant AmCham body on such proposed regulations. If warranted, the Committee will identify and make available resources to prepare



and suggest amendments to such proposed regulations. “Committee members represent the greatest possible variety of corporate and legal experts in regulatory issues,” says Niddam. “Given this expertise and the experience of members, I am convinced that this committee can successfully assist AmCham’s lobbying for effective regulation – to be based on proper and relevant impact analysis – with significantly improved implementation and reduced administrative burdens on businesses.” ★

Creating employee-friendly offices

ONE WAY TO AVOID costly employee turnover and to improve productivity is to enhance the workplace environment, according to Rita Istiván, managing director of Kinnarps Hungary. “We have a lot of stress and frustrations in our workplaces, and I think this is the area where we can have positive change, not just in job satisfaction but in productivity as well,” she said. Kinnarps, a Swedish-based office furniture company, sponsored an AmCham seminar about office design on May 6 at the Kempinski Hotel Corvinus Budapest.

Kinnarps employs a concept called PlanAir Office that brings natural harmonies indoors. For example, offices can use dynamic lighting that changes and adapts its intensity throughout the day, similar to natural light. Also, suitable color schemes should be chosen. “Colors shouldn’t be too dark or expressionless gray tones, but not something that is too excitable,” said Gábor Tari, assistant lecturer at the Budapest University of Technology and Economics, Department of Design. He recommended using fire colors in rooms used for communication or creative projects. Water tones should be in rooms where time-consuming or monotonous tasks occur, Tari said. Another suggestion to improve the workplace environment

is to play passive background music to relieve tedium and stress, Istiván said.

“I intuitively believe that the environment around you affects you,” said Michael Colicchio, Celanese Hungary managing director, who redesigned an office with the help of Kinnarps and his employees’ recommendations. Now, “everything is natural, light and airy,” he described. He sees the positive impact the redesign has made: “You have to know what your people want, and you need to deliver it to them.” ★



Overprotected consumers?

ADVERTISING PROFESSIONALS DISCUSS LAWS AND REGULATION

"THE MAIN ACHIEVEMENT or the added value of this forum is that it is really creating a platform for the industry and the authority to communicate and to understand each other's problems and goals," says Judit Budai about the AmCham conference on media and advertising law, held May 7 at the Budapest Marriott Hotel.

With contentious topics driving discussions, Hungarian Advertising Association members and regulatory agency representatives dialogued about the challenges they face, such as consumer protection rules and new advertizing rules. The conference elucidated regulatory changes stemming from the EU Unfair Commercial Practices Directive, which was implemented in Hungary and came into force on September 1, 2008, says Budai, partner at Szecskay Attorneys at Law, the professional organizer and event sponsor. This EU directive, which aims to harmonize member states' consumer protection laws, didn't tremendously change Hungary's advertising regulation, but it has created reallocation of the responsibilities of different authorities, Budai adds.

For example, under the new directive, the regulatory agencies that oversee business-to-business and business-to-consumer practices have been separated, which creates a "completely new challenge for consumer protection authorities," says Gusztáv Bacher, Szecskay Attorneys at Law partner. To explain the new rules, several authors of a 2009 commentary on advertising law spoke at the conference, including Bacher.

The conference also allowed industry professionals to discuss the most pressing consumer protection issues of the advertising business with regulatory representatives. "The industry claims that the Hungarian consumer is a bit more protected than Western European consumers," Budai says. "Usually the Hungarian rules are the most strict, or the jurisprudence and practice is the



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SZECSKAY ATTORNEYS AT LAW



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TIHAMÉR TÓTH
HUNGARIAN COMPETITION AUTHORITY



GYÖRGY UDVARDI
TESCO GLOBAL ÁRUHÁZAK

most severe in Europe, or at least in the CEE region.” Since the Hungarian standards for reviewing advertisements is so stringent, multinational companies often first look at our regulations and adhere to them, since it is the toughest standard by which to plan a regional campaign. The rationale for these standards, according to regulatory representatives, is that Hungary has not been a market economy long enough for its consumers to have a high level of competency, and thus, advertising should be sensitive towards its consumers, Budai recounts.

The conference’s marketers argued that these guidelines stymie what media outlets they use and limit creative potential. Bacher agrees that validating claims is difficult for the creative side of the industry. “The role of advertising is not to be a product information

leaflet,” Bacher says. “The aim is to grab consumer attention. But the problem is if you don’t mention all relevant information, then it might mislead consumers or create a false impression of the product or service.”

In light of the new EU rules, aiming at maximum harmonization, the expectation is to have more predictability and transparency in Hungary, Budai recounts. “As to the consumer benchmark, we heard at the conference from the regulatory representatives that in the EU there are certain economic research institutions that state the consumer should be considered more sensitive rather than more self-confident. So probably, it’s not that the Hungarian practice will be less severe, but the European one will be more so,” Budai says. ★



Kovács stresses tax reform

WITH THE RIGHT TAX MEASURES, the EU can help member countries tackle the current crisis, said László Kovács, commissioner for the European Commission’s taxation and customs union on May 15 at an Extraordinary Business Forum in the InterContinental Budapest. Kovács outlined three areas in which “proper taxation measures can help to protect jobs and create new ones and to combat illegal economic activities and tax evasion, thus helping to protect the tax revenues of member states.”

Reduced VAT rates for certain labor-intensive services, such as repair shops, hairdressers, or restaurants, is one of the measures that can lower prices and improve the competitiveness of SMEs, Kovács said. In March, an experiment of this policy in eight EU countries was extended, against the opposition of some countries, Germany especially. Now, 18 countries have the right to apply for these reduced rates.

“The Commission is also very active to reduce tax evasion, to which member states lose a staggering €200–250 billion a year,” Kovács said. VAT fraud on a company level is one of the issues, and it seems that member states are slow to introduce more effective controls on a national level and a better exchange of information between each other, he said. Kovács also outlined what has been done in the past years to handle the problem of tax havens and to tackle creative loopholes in international financial regulation. These measures are slowly becoming more and more global, he

said. “The era of bank secrecy is over, and the recent G-20 meeting gave an important boost to this goal.”

In the question and answer session, someone from the public said it was unfair that there is a high excise duty on beer, but wine has a duty of zero percent. “That is true, but I just cannot see wine-growing countries agreeing to change this,” Kovács agreed. This is the difficult reality of the EU, he said: there is no decision without the support of all 27 members, and it is quite an intellectual challenge to bring them to a common denomination. ★



LÁSZLÓ KOVÁCS, PÉTER DÁVID, JEFFREY LEVINE

AMCHAM

Calendar of Events

JUNE

23 Tuesday 8:30 am

Business Breakfast with Mark Hopkins,
Director of International Energy
Efficiency at the UN Foundation
Location: Hilton Budapest
Topic: Energy efficiency; Scaling
deployment to address global market
opportunities

25 Thursday 12:30 pm

Business Forum with Nicholas Jeffery,
Advisor for Investment & Strategic
Planning for the EBRD
Location: Budapest Marriott Hotel
Topic: Can technology save the
economy?

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.

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E-mail: info@horvath-hr.hu
Website: www.horvath-hr.hu

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KINNARPS HUNGARY KFT.



Managing Director: Rita István
Address: 1133 Budapest, Váci út 92.
Phone: (+36.1) 237 1251
Fax: (+36.1) 237 1250
E-mail: kinnarps.hungary@kinnarps.hu
Website: www.kinnarps.hu

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AMCHAM STAFF



PÉTER DÁVID
Chief Executive Officer
peter.david@amcham.hu
T: (+36.1) 266 9880



LÁSZLÓ METZINGER
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. 319



ERIKA BOSNYÁK
Finance Manager
erika.bosnyak@amcham.hu
T: (+36.1) 266 9880 / ext. 312



ILDIKÓ BRYJÁK
Project Manager
ildiko.bryjak@amcham.hu
T: (+36.1) 266 9880 / ext. 310



BEATRIX KOVÁCS
Project Manager
beatrix.kovacs@amcham.hu
T: (+36.1) 266 9880 / ext. 315



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. 350

AMCHAM OFFICE

NEW ADDRESS:

Budapest 1051 Szent István tér 11.
Mailing Address: Budapest 1365 Pf.: 741.
T: (+36.1) 266 9880
Fax: (+36.1) 266 9888
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