



AMERICAN CHAMBER OF COMMERCE IN HUNGARY

# VOICE

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## **AmCham at 25: Moving With Momentum**

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# Dear Friends and Members,



Photo: István Nagyapali

The world is a better place today, because countless concerned citizens around the globe take the time and invest the energy to make a difference. What holds true on a global level holds true on a local

level, too. Sometimes they are thanked, but often they are unsung heroes, driven by values and not by applause. I have experienced firsthand the dedication of wonderful people working to better this country in many ways. Whether it is the Language Ambassador program touching the lives of students in school, or making recommendations regarding education, innovation or tax, this organization has worked to carry the torch and to lead the way. I am unabashedly proud of the professionals with whom I have had to opportunity to work. But my pride is exceeded only by the excitement I have for AmCham's ability to contribute to key issues in the future.

Through the efforts of the staff and committees, AmCham is poised to play a pivotal role in channeling issues between business and government. Strategic agreements – in plural – will allow us to leverage our membership base in putting forth actionable ideas

regarding future directions. This is where we belong; this is our sweet spot.

I am also greatly encouraged by the level of interest at the board level to help steer this organization over its next two-year period, a good sign that an increasing number of decision makers are willing to lend support to AmCham in tough times and in tough questions. As they say, tough times don't last, but tough people do: We're ready.

It has been my honor and pleasure to work with and for you. If you are not involved, I invite you to get engaged in the future. Serving is a wonderful way to give back and set an example for others to follow. When you empower others to contribute, you've contributed yourself. It's the same magic formula that has powered AmCham for 25 years. It works, and I am grateful I had an opportunity to experience it; I wish you the same.

*William Benkő*

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The Barabási–Albert model (for more detail on this, see page 25) suggests that if networks are expanding, links

## Dear Friends and Members,

will want to join the most popular hubs; therefore they will grow even more. The larger the hub, the stronger the network, and the more brainpower it concentrates. It is clear that the hubs make the difference.

AmCham is a hub, representing strong and diverse members, and it can make a difference. That is why I chose to run for the presidency. I am thrilled to have been elected for the next two years. As our now former president Willy Benko said in Parliament at our anniversary gala on November 14, he was encouraged to be engaged, to run for the AmCham Board.

In the past years I have been fairly active as a board member and as Secretary Treasurer, so I chose to become engaged, because I witnessed how this organization is evolving day-

by-day and how many opportunities we have to use our influence.

I am thrilled to be president as I feel that we have momentum. We are relevant across a selection of topics; we will build on this expertise and make our voice heard even louder than before; we will encourage much needed dialogue and we will help the country and the region become more attractive and more competitive. It will be hard work, it will take time, but it is our vision and we will strive to achieve it!

Sitting on the grandstand watching the players on the field is one choice. My choice is to be one of the players and be part of the game. I invite you to join the board and me. Let's make a difference together!

*Ferenc Pongrácz*

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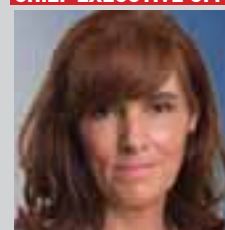


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# Building on a Long-standing Relationship

*VOICE spoke with Minister of Justice László Trócsányi about the ongoing relationship between his ministry and AmCham, the newly signed strategic agreement between the two parties, and future plans.*

**YOUR CAREER HAS TAKEN IN THE ROLES OF LIBRARIAN, RESEARCHER, LAWYER, UNIVERSITY PROFESSOR, A MEMBER OF THE CONSTITUTIONAL COURT, AND AMBASSADOR. HOW WILL THEY HELP YOU FULFILL THE ROLE OF MINISTER OF JUSTICE?**

Law has played a very important role in my life. My father was a lawyer as well; sadly he was fired by the communist regime from the Ministry of Justice in the 1950s. He was my first instructor in the field of law. After graduation, I worked in various positions and places, but among all these roles there is a link, which is my passion towards law and jurisprudence.

**AMCHAM HAD A STRONG RELATIONSHIP WITH YOUR IMMEDIATE PREDECESSOR, UNDERLINED BY THE STRATEGIC AGREEMENT THE TWO SIDES SIGNED IN EARLY 2011. HOW DO YOU SEE THIS RELATIONSHIP DEVELOPING IN THE FUTURE?**

The Ministry of Justice is the general successor of the former Ministry of Public Administration and Justice, but this governmental agency has a different portfolio, our competencies are not the same. A change in one of the parties resulted in a new approach in our relationship, so we have already agreed how to work together in the future. The new strategic agreement that we signed on November 12 with AmCham is a solid basis for that.

**HOW WOULD YOU CATEGORIZE THE INPUT FROM AMCHAM? HOW USEFUL IS IT TO YOU?**

A quarter of a century has elapsed since the change of regime in Hungary. During

these two-and-a-half decades, AmCham has worked permanently with us. We are all proud that the American Chamber of Commerce in Hungary was the first to be established in the Central and Eastern European region and became the largest in the area. Besides capital, AmCham also symbolizes American knowledge, know how, and ethics that are crucial to do fair and lucrative business. Many see the role of the MoJ as a 'factory of legislative drafting'. However, just as lawyers make a mistake if they distance themselves from reality, the MoJ cannot live only in the academic world of law; we need inputs. AmCham, like hundreds of other non-governmental organizations, do a great favor to us when they provide us with their expert opinion.

I personally appreciate that the companies represented by the chamber create jobs here in Hungary. We also note that a growing number of Hungarian companies also do business in the United States under the AmCham umbrella, making it a strong pillar for transatlantic relations.

**WHAT ARE THE MOST PRESSING ISSUES FACING YOUR MINISTRY RIGHT NOW?**

Prime Minister Viktor Orbán generally mandated me upon my appointment to strengthen Hungary's constitutional identity and public trust in the judicial system. My everyday work is subordinated to these principles. Hungary must create the right legal environment for investors. Almost every aspect of business life is linked to – sometimes even dependent on – the legal environment. Hungary adopted a new Basic Law with strict rules on public expenditure. We have a new Civil Code and Penal Code too, so new Civil and Penal Procedure Codes shall



Photo: Endre Véssey

be adopted. I am convinced that a new system of administrative judiciary must be introduced to Hungary. The MoJ also plays an important role in reshaping the rules of the financial and banking institutions; society must be freed from the trap of the foreign currency loans without destroying the market.

**WHAT ARE THOSE AREAS WHERE YOU COUNT ON AMCHAM AND HOW CAN IT BEST HELP?**

In the framework of the agreement on strategic cooperation recently signed with AmCham, the chamber can see and comment on pieces of legislation prepared by the Ministry of Justice. We count on the experience and constructive proposals of the chamber. In the codification work, all relevant parties shall have their say; it helps enforcement as well.

**IF YOU HAD ONE MESSAGE TO SHARE WITH AMCHAM MEMBERS, WHAT WOULD IT BE?**

We have been working together for a long period of time to build up a prosperous and flourishing economy, and I count on AmCham in this endeavor for many years to come. I also wish to express the important role AmCham can play in enhancing the bilateral relationship between Hungary and the United States, as demonstrated by the speech of the Prime Minister at the silver jubilee event of AmCham held on November 14.



## INTERVIEW

# New Name, New Focus

by ROBIN MARSHALL

*The new name of the Hungarian Investment Promotion Agency (HIPA), formerly the Hungarian Investment and Trade Agency, reflects a more closely focused approach, says its president, Róbert Ésik.*

"In response to the significant changes the world economy has seen in recent years, the Hungarian Government decided to adapt foreign policy to the new situation: foreign policy is now more focused to assist the country's economic interests," Ésik told VOICE in an exclusive interview.

With international economic relations added to the portfolio of what was previously the Ministry of Foreign Affairs, the supporting institutions were also restructured, the president explained. "We have a new clear scope of work, which is investment promotion. From now on our whole focus is on that. In the past we also handled trade promotion; that task has been transferred to the Hungarian National Trading House, another background institution of the Ministry of Foreign Affairs and Trade. While HIPA's main task is to promote foreign direct investments, the National Trading House focuses on export promotion with the active involvement of the Hungarian Export-Import [Exim] Bank."

One result is that whereas earlier HITA had to work closely with two ministries regarding state aid topics, now HIPA has just one master. Investors should benefit, too. "The new structure and scope of work means we have an increased focus on our clients. We aim to provide one-stop project management services both for newcomers and investors who have already established a presence in Hungary." Efficiencies should follow, too. Previously the agency needed to get 16 signatures to sign off on an incentive offer; now, the president says, he needs just three.

One of the first challenges facing Ésik, who was appointed in October, is making sure people are aware of the agency's new name and role. A key task will be assisting the government's 'Opening to the East' policy, which seeks to make Hungary the distribution center of Asian trade to

Europe, a natural regional logistics base, and a knowledge-based, innovation driven operational hub for any businesses which intend to further expand in Europe. The country also has a goal of being ranked first for FDI per capita in Central Europe, and first for exports to GDP ratio, and for industry to GDP ratio in the EU.

"The FDI per capita target is obviously a top priority for us. Moreover, if we are able to attract new investors, who supply their European distributors from here, that automatically leads to more exports; and if they build a production site here, that will contribute to industry's GDP share." Hungary currently lies second to the Czech Republic in the FDI table, with €7,918 per capita in 2013 and €9,383, respectively.

For the first 15 years after the change of system in 1989, capital inflow to Hungary was steady, but has accelerated since, with the FDI stock doubling in the last 10 years to reach €80.6 billion at the end of 2013, or 82% of GDP. Last year saw a €2.3 bln inflow, HIPA says.

It is clear that Hungary will need to be ever more competitive: UN figures predict \$1.6 trillion (about €1.29 tln) in global FDI flow for this year, rising to \$1.75 tln (€1.42 tln) for 2015 and \$1.85 tln (€1.5 tln) in 2016. "Right now we have 104 investment projects. If we were able to implement all of them it would create more than 22,135 new jobs, and more than €2.6 bln in investments," says Ésik.

The most successful sector is automotive, with four carmakers and 15 of the top 20 worldwide TIER1 suppliers already based in the country. "I believe there is still further potential in this sector. The good thing about it is that it really helps Hungarian SMEs get into the value chain. They can start as a TIER3 and, as they prove their worth and quality, move up to TIER2 and possibly



Photo: HIPA

even TIER1. From HIPA's side, we provide coaching and training for these SMEs."

Shared Service Centers are the other highlight. "We have 91 SSCs here now, and what we find is that once they are here, they usually reinvest and bring in more complex and higher value added processes. This is good because it means our well-educated, young, language-speaking workforce can find interesting and challenging positions in Hungary. Some 34,000 people are employed in SSCs."

While there is a well-known intent to make Hungary a manufacturing hub, Ésik is at least as excited by the more recent talk of becoming an R&D center. "This is very important because R&D developments lead in turn to increased production. R&D is an area where Hungary has a sustainable competitive advantage, so it makes sense to invest in this area. I am very happy the government has announced it is doubling the funds for R&D and innovation in the 2014-20 EU funding period, with €706 mln dedicated to this. We will do our best to coordinate with NIH – the National Innovation Office – so together we are able to leverage these funds to the best advantage."

And he freely admits he will also be looking to this chamber to help. "AmCham is an independent professional organization that is highly recognized and respected, therefore if AmCham informs and refers its members to HIPA as the government agency that helps investors, that has the experience and resources, that knows the opportunities and locations, that will greatly help us to achieve our joint goals."

# Advocacy Update

*Over the past months, AmCham has continued its advocacy efforts in accordance with its mission and engaged in a fruitful and open dialogue with the government covering a great variety of issues important for our members.*

## **EXCLUSIVE MEETING WITH PRIME MINISTER VIKTOR ORBÁN AND HIS CABINET ON NOVEMBER 14 AT PARLIAMENT**

Prime Minister Viktor Orbán received AmCham representatives at an exclusive meeting in the beautiful Munkácsy room of the Parliament on November 14, before he and other invited honorary guests joined the 25th Anniversary Gala Event of AmCham Hungary and GE Hungary. The Prime Minister, Minister of Justice Dr. László Trócsányi, Minister for National Economy Mihály Varga, Minister of National Development Dr. Miklós Seszták, advisor to the Prime Minister Réka Szemerkényi, and government spokesman Zoltán Kovács held a focused and in-depth discussion with the AmCham delegation on the most important issues raised by the business community in Hungary. AmCham representatives were determined to deliver the key messages of investors. Participants confirmed to the

Prime Minister and his colleagues that ‘we row in the same boat’, and it should not be questioned that companies are loyal to this country and will work together with the government to attract more investment into Hungary and the region. It was also mentioned that decisions on new investments are made at global corporate headquarters, but based on locally gathered business intelligence, and not on news headlines.

## **REGULAR COOPERATION WITH THE MINISTRY OF JUSTICE**

In October, AmCham and its Regulatory Committee, chaired by Gábor Orosz, Director and European Counsel of National Instruments, was invited to the Ministry of Justice for a high-level discussion with Dr. László Trócsányi, Minister of Justice and Dr. Barna Berke, State Secretary, where mutual trust and the foundations of a continued working relationship were established. Trócsányi confirmed that the ministry views

AmCham as a strategic ally in articulating the standpoint of businesses in Hungary. *(For a full interview with the minister, see page six.)*

A Strategic Partnership Agreement was signed by the ministry and the chamber in Parliament on November 12. The purpose of the renewed agreement, originally signed in 2011, is to set the framework for structured dialogue between legislators and the business sector. It improves the transparency of corporate advocacy, and makes structured dialogue an integrated part of legislative work. Signatories of the partnership agreement set the long-term goal of drafting high-quality, effective legislation to create a more business-friendly environment with a stable legislative background in Hungary. State Secretary Berke and Deputy State Secretary Dr. Zoltán Nemessányi also confirmed their participation at the December 2014 meeting of the Regulatory Committee, with the aim of discussing the







details of ongoing cooperation and future areas of joint work.

## New European Patent Regime

At the request of the ministry, AmCham surveyed its members in October on the Impact Assessment of Hungary's Proposed Accession to the new European Patent Regime. The chamber received a relatively high number of responses, some of them providing very deep insight about the pros and cons of the European unitary patent system. The ministry welcomed AmCham's input, coordinated and finalized by Dr. Balázs Fazekas, Counsel of White & Case LLP, and it was noted that the practical aspects raised by the responses proved very valuable in particular. Most responses shared the view that Hungary should join the system in the first round, as accession would bring benefits to innovative sectors including (*inter alia*) electronic device manufacturing, medical equipment manufacturing, and electronics and information technology. However, some respondents warned that the Hungarian legal system should provide better protection and incentives to local small- and medium-sized enterprises stepping out to the international scene so that they suffer no harm as a result of an increased exposure to patent trolls and large enterprises with a large international patent footprint.

## AmCham's position on Hungary's reservations to the International Sale of Goods (CISG) legislation

Again at the request of the Ministry of Justice, AmCham formulated and submitted its position regarding the possible withdrawal of a reservation Hungary made in 1987 when ratifying the United Nations Convention

on Contracts for International Sale of Goods (CISG). In this reservation Hungary declared that any provision of the CISG that allowed a contract of sale or its modification or termination by agreement or any offer, acceptance or other indication of intention to be made in any form other than in writing, would not apply where any party to such a contract had its place of business in the territory of Hungary.

The Regulatory Committee, with special contributions from project leader Dr. János Tóth, Partner of Faludi Wolf Theiss Attorneys at Law, collected a handful of very practical business reasons, including arguments for a more stable and predictable contract law environment in international trade and for the approximation of the law to the market practice, which served as the basis for the position AmCham confirmed to the ministry, namely that it would support Hungary's withdrawal of such a reservation to the CISG.

## REGULATORY COMMITTEE CONTINUES TO MONITOR LEGISLATION IN THE PIPELINE

In November, the regulatory committee reviewed draft amendments to the 'Act on Mining 1993, XLVIII', which was submitted to Parliament by the Ministry of National Development. AmCham circulated the draft legislation among those members whose activities would be affected by the new law and requested their opinion. Dr. Bálint Bassola, Partner of bpv Jádi Németh Attorneys at Law and his colleagues incorporated members' feedback and have compiled a set of recommendations, which was then sent

to relevant government bodies. AmCham will continue to monitor this regulatory field and will keep disseminating relevant information to its members.

## COOPERATION WITH THE MINISTRY FOR NATIONAL ECONOMY

By the end of 2014, AmCham and the Ministry for National Economy will have carried out several joint projects. AmCham will continue to provide a platform for a regular dialogue between businesses and the ministry. In early December, an exclusive business breakfast for patron members was organized, where Antal Nikolett, Deputy State Secretary responsible for Foreign Economic Policy, shared the ministry's commitment to engage in a regular and constructive dialogue with AmCham to create a more investor and business friendly environment in Hungary. The ministry requested AmCham's assistance in collecting input and opinions from key business players on issues ranging from investment conditions, regulatory environment and administrative burdens, to labor market conditions. In 2015, regular dialogue will continue.

## PARTNERSHIP WITH HIPA

In early November, AmCham representatives had a high-level meeting with Róbert Ésik, President of the Hungarian Investment Promotion Agency (HIPA) and his colleagues. The two organizations discussed their respective agendas and agreed on very close cooperation in the future. AmCham and HIPA have committed themselves to signing a Strategic Partnership Agreement and making joint efforts in promoting investment. (*For a full interview with the HIPA President, see page seven.*) Minister of Foreign Affairs and Trade Péter Szijjártó will be the guest speaker of the AmCham Business Forum on January 12, where the ceremonial signing of the Strategic Partnership Agreement is scheduled to take place.

## Acknowledgement

AmCham Hungary would like to say special thanks to chamber and committee members who have contributed to advocacy projects in 2014.

# 25 years of FDI in Hungary

***“Thank you for being here. Thank you for having been here for 25 years. I wish us all success, glory, and another happy 25 years!” So saying, Prime Minister Viktor Orbán ended his speech marking the silver jubilee of AmCham and GE in Hungary.***

**I**t also provided a verbal bookend to comments made by the late President of Hungary Ferenc Mádl, some 24 years earlier when, as chairman of the drafting committee of the Hungarian Foreign Investment Law, he told potential investors in the first issue of AmCham’s newsletter: “Come to Hungary. Stay in Hungary. I think it will prove worth your while.”

Come they did. And the country has reason to be grateful that was so, for while multinational companies have not always appeared to be the most welcome of guests in some circles among Hungary’s political elite, there is no doubting the nation would be a very different – and undeniably poorer – place without them.

For, as the Prime Minister had acknowledged earlier in his speech: “If we look at the figures related to U.S. companies operating in Hungary, we realize how astounding they are: 1,700 U.S. concerns operate in Hungary, providing a living for more than 80,000 Hungarian citizens; investment by U.S. businesses in Hungary has surpassed \$9 billion; and investments by 40 American multinational companies have created more than 40,000 new jobs in the past ten years.”

General Electric alone is responsible for many of those, as Nani Beccalli-Falco, President of GE Europe, pointed out at the anniversary gala in the Upper House of Parliament (see photo spread on page 15). The GE business in Hungary is now worth \$6.5 billion, making it the third largest exporter in the country. It’s regional footprint is such that it employs a total of 27,000 staff, more than 13,000 of them here in Hungary.

For all those impressive figures, however, the perceived treatment of foreign investors is still an issue, as indicated by the 2014 AmCham Investment and Business Climate Survey (see page 12), where “stop multi-bashing” is listed among the AmCham member suggestions for making the business climate more favorable. It was also mentioned by several of the candidates standing for election to the AmCham board at its annual meeting on December 3.

That FDI has made a measureable difference to the economic betterment of Hungary was underlined in a 2011 research study called ‘The Present and Future of FDI in the Hungarian Economy’, carried out by Századvég Economic Research Ltd., part of the Századvég group, on behalf of AmCham. “Companies with foreign interest generate 20-25% of the GDP, they are responsible for 27% of total domestic investments and provide 15% of total employment,” concluded the executive summary of the report. “Considering external trade, 65-70% of all exports and 72-73% of all imports are related to these companies.”

The impact has been sustained, the research found: “According to our



estimates, FDI on average contributed 0.7-0.9 percentage points to the annual GDP growth in the past 15 years. This value could be assessed as a very high contribution compared to the average 2.3 percent annual growth rate during the examined period.”

The survey leaves no doubt as to the benefits of FDI. “The results are quite clear: economic openness as a factor (that includes FDI inflows and the sum of exports and imports in proportion

Photo: From the HIPA website



*fDi Magazine, a bi-monthly investment publication of the Financial Times Group named Budapest as the most attractive Eastern European city for FDI in 2014.*

to the GDP) has a significant positive impact on a country's economic growth. All in all, the inflow of FDI is regarded as a potential opportunity for the national economy."

But potential has to be realized. MNCs, by their nature, are looking for the very best contributors for their component supplier network. Put frankly, SMEs across the region aren't always up to the challenge, be it in terms of entrepreneurial attitude, openness towards constant technological development, transparency of operations, or the capability to adapt. The report identifies "a significant handicap... in integrating foreign investments into the national economy" as a region-wide problem.

That has led to what some call a dual economy, with MNCs and SMEs at polar ends and little interconnection between them. This in turn has at times been used as a stick to beat foreign direct investors, as if they alone are to blame, but the report preferred to see the promise of something better. "Handicaps in the capability to integrate technology transfers, to develop human capital and the weakness of R&D incentives did not enable most Hungarian firms to become partners of multinationals. If these limiting factors could be at least partly alleviated by a conscious development policy then a huge opportunity would open for the Hungarian economy by the further inflow of FDI."

The government seems to have taken note of that notion, and is employing a twin approach to tackle the problem of the dual economy. On the one hand are the strategic agreements the state has been signing with major economic players since Fidesz came to power. While the content remains confidential, it is known that the companies (almost all of them foreign owned) are asked to involve a certain percentage of Hungarian SMEs in their supply chains. Those SMEs still have to be up to the task however, and here comes the second line of attack. As Róbert Ésik, president of the Hungarian Investment Promotion Agency says in our interview on page seven, his agency is actively involved in training Hungarian SMEs to meet MNC standards, and also in linking up investors and domestic suppliers in order that more of the latter can "get into the value chain".

One of the pub arguments still trotted out against FDI is that foreign investors are simply harvesting Hungarian productivity, reaping the rewards and sending the profits back home, wherever that may be. Like most commonly held beliefs, there is an element of truth in that, but it is far from the whole picture. András Balatoni, now an analyst at ING Bank, but then research director at Századvég Economic Research Ltd and one of the co-authors of the FDI study, told *VOICE* back in 2011 that whatever the type of capital inflow (be it foreign loans, portfolio investment, or FDI), it always incurs a

cost, usually through repatriation of profits or paying interest, something GDP alone doesn't take into consideration.

A better measure therefore, is gross national income, which does account for balance of payment income flows, and also measures value added effects such as technology transfer, and additional fixed capital formation.

"GNI would have been 6-16% lower if FDI was substituted for some alternative financial source," Balatoni told *VOICE*. That it might have been even higher if Hungary's "absorption capacity" – its ability to put FDI to best use – was greater, was hardly the fault of the investors, he argued. "This is what we have to communicate to society, to politicians and economists: if we don't have greater growth, that is our [national] problem, not the fault of FDI."

Foreign investment in Hungary continues to be of the utmost importance then. Again, as HIPA's Ésik points out, Hungary's great location means that, if you attract foreign investors here, they usually use the country as a supply base for the European markets, thus boosting exports (think in particular of the likes of Audi, Mercedes and Opel). Hungary's goal is to become the number one recipient of FDI per capita in the region. In 2013 it came second, with €7,918 (about \$9,755 at today's exchange rate), behind the Czech Republic at €9,383 (\$11,577). Hungary's FDI stock has doubled in the last 10 years to reach €80.6 billion (\$99.2 bln) by the end of last year (82% of GDP). 2013 saw a total €2.3 bln (\$2.8 bln) inflow, HIPA says.

And if foreign investors are important, the organizations who represent their voice in Hungary are equally so. As AmCham CEO Írisz Lippai-Nagy said at the chamber's 25th anniversary gala: "Looking around you see leaders representing companies producing more than 35% of Hungary's exports and employing close to 180,000 people."

Foreign direct investment has helped transform the Hungarian economy over the past 25 years, even allowing for the trauma of the economic crisis that started in 2008. It seems certain that FDI, if it is attracted in sufficient quantities, will continue to transform Hungary in the next 25 years.



**SURVEY**

# Optimism Returns to Hungary's Business Environment

*The worst of the financial crisis is over, the findings of the 2014 AmCham Investment and Business Climate Survey suggests. Member companies responding to the survey in general have a positive outlook of the future, optimism that likely comes from global and regional trends, as they say they have not seen any improvement in the most important local conditions determining their business environment such as stability and predictability.*

**T**hat lack of stability would seem to be reflected in the fact that only 8% of respondents plan strategic investment decisions. Better news is that 69% say they do not plan to relocate all or part of their activities outside of Hungary in the next two years, and 62% of companies may consider bringing new direct investments to Hungary in the next five years.

Asked to evaluating Hungary's regional competitiveness, 60% of respondents see Hungary as more competitive than Bulgaria, with most putting Austria, Czech Republic and Slovakia ahead of the country, and putting Romania on an equal footing.

As for the overall competitiveness, 33% saw some improvement (6% seeing strong improvement), while 48% said competitiveness deteriorated (15% said strongly) in the past year. In comparison, last year 76% of respondents said the country's competitiveness has deteriorated (41% said strongly), and only 11% saw some improvement. From this angle, the present figures seem to represent a vast improvement in the general mood of the business community.

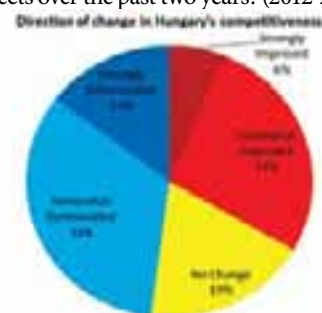
In evaluating 2012-2013, the only real improvement in the economic environment

was in regards to personal income taxation with areas such as corporate taxation, gross employment costs and minimum wage remaining stagnant and yet others facing slight to moderate deterioration. It is clear that decision makers see the stability of the regulatory environment as the most concerning problem.

There appears to be a general optimism for 2014 in all areas. Most surveyed expect to see a rise in their profits and in their new investments in 2014 compared to 2012-2013. In the case of new investments, 62% plan to bring new investment to Hungary in the next five years (30% plan no such moves). Projecting Hungarian business indicators, business leaders expect 1.7% annual growth for 2013.

## The Hungarian business climate

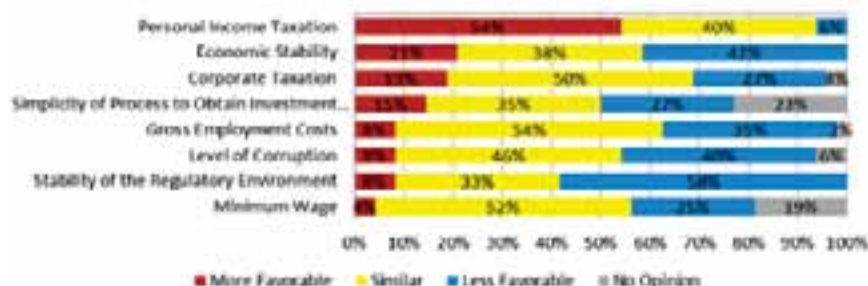
Q: How do you evaluate the changes in the Hungarian business climate for the following aspects over the past two years? (2012-2013)?



## Competitiveness

In the survey, business executives evaluated the general tendency of Hungary's overall competitiveness over the past two years: 48% of respondents say that Hungary's competitiveness has deteriorated over the past two years, 19% saw no change, and 33% says it has somewhat improved.

Evaluation of changes in the Hungarian business climate in the following areas between 2012-2013



## Companies in figures

The 48 companies who responded to the survey altogether employ 32,435 people. Their combined total annual sales in 2013 amounted to HUF 1755 billion. The average total annual sales of the respondents were approximately HUF 44 bln in 2013. Fourteen of the companies (29%) have R&D activities in Hungary.

## AmCham Member Suggestions for Making the Business Climate More Favorable

- Provide stable, transparent and predictable regulatory and economic environment by minimizing improvisation and maximizing long-term solutions;
- Less interference by the state in the economy;
- Reduce bureaucratic red tape and make public administration more "service oriented";
- Provide level playing field for all businesses, regardless of sectors;
- Stop multi-bashing;
- Further increase Hungary's attractiveness for foreign investors by achieving a balance of affordability and capability within the workforce.

# A Decade and More of Briefs


*From 2003 to-date, AmCham Hungary has published a total of 11 position briefs. Each had the same goal, to help improve the country's competitiveness by addressing a specific area or piece of legislation and making a series of recommendations. Others are in the pipeline.*

In the 11 years since they were introduced, AmCham Hungary's Position Briefs have covered a lot of ground, from how to encourage more FDI into Hungary (the first, in June 2003), to a response to the national energy strategy and proposed action plans (the most recent, published in December 2012).

Along the way a number of pillars of Hungarian national competitiveness have also been addressed (education; logistics; the tax system; good corporate governance; health; E-Government; electronic manufacturing; and R&D and innovation). The

e-government brief was revised in February 2013 to take account of the latest developments in what is a fast evolving environment.

The briefs are considered AmCham's flagship lobbying vehicle; the succinct and highly focused proposals are submitted to the Hungarian government on a regular basis and convey the views of the AmCham membership on a specific topic. In order to widen debate, the publication of each Position Brief is followed-up with round table discussions with the experts who have contributed to each publication and relevant government representatives.



## AMCHAM HUNGARY POSITION BRIEF No. I

**ENCOURAGING FOREIGN DIRECT INVESTMENT IN HUNGARY** JUNE, 2003

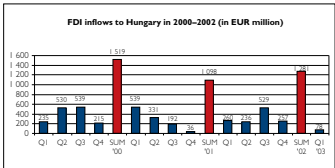
This AmCham Position Brief is the first of a series of short position papers designed to identify possible improvements, which may provide immediate and sustainable benefits to the Hungarian economy.

The American Chamber of Commerce in Hungary submits this particular Position Brief in the hope that it will encourage decision makers in Hungary to take action to dramatically improve the climate for business investment in Hungary. AmCham believes that sponsoring FDI proactively is a necessary prerequisite for economic growth and improvement in competitiveness.

The recent stagnation in FDI reflects deterioration in the competitiveness of the Hungarian economy relative to neighboring countries. A prolonged stagnation in FDI will also hinder the necessary investment to sustain and grow Hungary's competitiveness.


Foreign Direct Investment (FDI) in Hungary has languished in the past years, as Graph I below indicates.

*Graph I*



\* In this Paper, FDI figures for Hungary will always refer to equity only.


Source: National Bank of Hungary



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## Position Brief Back Catalogue

**POSITION BRIEF NO. I**  
(June 2003)  
'Encouraging Foreign Direct Investment in Hungary'

**POSITION BRIEF NO. II**  
(January 2004)  
'Education as a Pillar of Hungarian National Competitiveness'

**POSITION BRIEF NO. III**  
(August 2004)  
'Logistics as a Pillar of Hungarian National Competitiveness'

**POSITION BRIEF NO. IV**  
(September 2004)  
'Tax System as a Pillar of Hungarian National Competitiveness'

**POSITION BRIEF NO. V**  
(April 2005)  
'Good Corporate Governance as a Pillar Of Hungarian National Competitiveness: Leading To Better Decisions, Increased Valuations & More Investment'

**POSITION BRIEF NO. VI**  
(September 2006)  
'Health as a Pillar of Hungarian National Competitiveness'

**POSITION BRIEF NO. VII**  
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'E-Government as a Pillar of Hungarian National Competitiveness'

**POSITION BRIEF NO. IX**  
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'Electronic Manufacturing as a Pillar of Hungarian National Competitiveness'

**POSITION BRIEF NO. X**  
(March 2012)  
'Research & Development And Innovation as a Pillar of Hungarian National Competitiveness'

**POSITION BRIEF NO. XI**  
(December 2012)  
'On the Published National Energy Strategy and Proposed Action Plans'

## Related stories from the VOICE archive:

Supporting the Sustainable, December 2012  
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Stand by Your Message, March 2012

# A Future Built on the Foundations of the Past

by **ROBIN MARSHALL**

*AmCham CEO Írisz Lippai-Nagy laid out the vision and strategy for the chamber in her speech at the silver jubilee anniversary celebrations in Parliament on November 14, noting that it will be based on the solid foundations of the past 25 years, and calling on all stakeholders to remember the “one thing we have in common: a responsibility to shape the future of Hungary”.*

A theme running through her speech was that the chamber must meet its members’ expectations, not least to make the most of the improved economic climate. Since she joined AmCham in June 2014, Lippai-Nagy has been meeting with as many members as she can. Their feedback has helped her understand members’ expectations, she said. Based on these interviews and discussions with the chamber’s board and committee chairs, the leadership team has formulated AmCham’s long-term vision and its strategy for the next three years.

Central to the vision is a regional approach. “Hungary needs to grow with the region and the region needs to grow with Hungary,” the CEO said. In a sense, that reflects the reality on the ground. “Many of our members are already regional, and AmChams in the region have a powerful network to strengthen cross-border activity.”

The vision is further articulated in an ambitious but easily measured goal: to



achieve a ten-place improvement in the World Competitiveness Index within a decade for Hungary and the region.

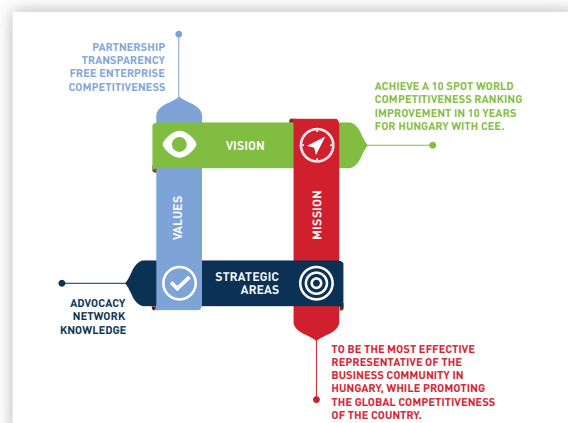
AmCham’s mission remains the same: To be the most effective representative of the business community in Hungary, while promoting the global competitiveness of the country.

To better promote competitiveness and achieve the vision and mission goals, the chamber has redefined three strategic areas of impact: KNOWLEDGE, NETWORK, and ADVOCACY.

AmCham already is a NETWORK, of course. It connects business leaders from industries and with government. The challenge, as ever, is to exploit its potential to the full. “As a financially and politically independent organization representing nearly 400 members from more than 20 different countries, we are in a strong position to advocate for an investor-friendly business environment to the government.”

That naturally leads to ADVOCACY. Lippai-Nagy says the AmCham board is working on a structured policy agenda with both its own committees and strategic partners in government. This will be shared with members early in 2015, and will act as the chamber’s advocacy roadmap for the year.

Guided by AmCham’s core values of partnership, transparency, free enterprise and competitiveness, that is the task facing “this divergent, yet powerful business community”. It is a challenge, the CEO freely admits, but all the more exciting and motivating for that. “I look forward to working with you, side by side, in helping shape Hungary’s and the region’s future!”



KNOWLEDGE clearly includes the experiences and skills of members, but also takes in education and innovation. This is an area of vital importance for both country and companies, as Lippai-Nagy pointed out: “Our members need a well-trained and capable workforce and we wish to support you and Hungary in preparing future generations to be competitively employable.”



# AmCham in Parliament



# Business NEWS roundup

It isn't necessarily all doom and gloom out there...

Compiled from **Hungary AM's news service**



## MÁV NOSZTALGIA LAUNCHES NEW LUXURY BUDAPEST-TEHRAN EXPRESS

MÁV Nosztalgia, a unit of the Hungarian state-owned railway company MÁV, launched the first service of the Budapest-Istanbul-Tehran Golden Eagle Danube Express, a luxury train that travels between the capital cities of Hungary and Iran, on October 15. The train departed, fully booked, with 70 passengers on board from the Western Railway Station, for a 7,000 km journey over 13 days. Speaking at a press conference at the railway station, MÁV-Start CEO György Zaránd, who also heads the company's nostalgia division, said MÁV-Start provided the museum train and its staff, while British travel agency Golden Eagle marketed the tickets. Tickets cost \$10,000-15,000. The company plans to operate the Budapest-Tehran Express five times a year, Zaránd said earlier.

## BORGWARNER LAUNCHES HUF 9 BLN EXPANSION IN HUNGARY

U.S. automotive industry supplier BorgWarner laid the cornerstone of a HUF 9 bln (\$36.7 mln) turbocharger plant at its base in Oroszlány (located in northwestern Hungary) on September 29. The company won an HUF 850 mln government grant for the investment. Minister of Foreign Affairs and Trade Peter Szijjártó said BorgWarner had pledged to create 400 jobs at the two plants. The investment includes 15,000 sqm of production area and 10,000 sqm of warehouse and service space. The new plant will start production next summer. Headcount is expected to rise to 207 a year later, but the potential exists for as many as 500-600 to work at the plant.

## CANADA'S AIR TRANSAT TO LAUNCH WEEKLY FLIGHTS TO BUDAPEST

Canadian airline Air Transat announced on October 16 that it scheduled to launch chartered weekly flights connecting Toronto and Montréal with Budapest from June 2015, enabling Budapest Airport to provide travelers with direct trans-Atlantic routes again. The airline said it would use a wide-body Airbus A 330-200 for the route. The first aircraft is scheduled to arrive to Budapest on June 18 at 11:10 am local time. The plane is to offer 345 seats with 333 economy and 12 Club Class places. The new route would enable Budapest Airport to offer essential trans-Atlantic connection to destinations

in North America. "All the preliminary research shows there is real demand for this kind of service both in the leisure and the business segment and will soon lead to increase of frequencies as early as possible," Budapest Airport CEO Jost Lammers said.

## ECOSOLIFER BUILDING HUF 15 BLN SOLAR PANEL PLANT

EcoSolifer, a solar panel producer using Hungarian know-how, is building a HUF 15 bln (\$60.5 mln) solar cell plant in Csorna, the company announced on September 18. Hungarian State secretary Péter Szijjártó said the government would support the investment with a HUF 1 bln grant. Construction of the plant,



which is expected to employ 212 people, should be finished by the second half of 2015. EcoSolifer managing director Ákos Haidegger said the unit would chiefly produce for export.

## **EU-FIRE TO BUILD €116 MLN GEOTHERMAL PLANT IN SOUTHEAST HUNGARY**

Hungary's EU-FIRE is teaming up with Icelandic peer Mannvit to build a €116 mln (HUF 35.6 bln) geothermal power plant near Battonya in southeast Hungary, government and company officials announced on December 2. The project, carried out with the cooperation of the National Development Ministry and the National Economy Ministry, is supported with a €39.3 mln European Union grant. The power plant, to be completed by the end of 2018, will generate an annual 12MW of electricity and 60MW of heat energy. EU-FIRE holds 95% of the project company for the plant. Mannvit owns 5%.

## **FŐTÁV, ALPIQ TO INVEST HUF 18 BLN**

Főtáv, the district heating company for Budapest, and Swiss-owned Alpiq Csepeli signed an agreement on December 2 for a development project valued at over HUF 18 bln (\$72.6 mln). The project is expected to raise the heat capacity of Alpiq's power plant in the south of Budapest from 145MW to 245MW by the start of the heating season in 2017. Főtáv is taking a HUF 15.7 bln investment share in the project, with half of that amount being supported by a European Union grant. Alpiq is investing HUF 3 bln in the project, and planning to spend a further HUF 4.3 bln on related environmental developments by 2019.

## **HONEYWELL PLANS €10 MLN EXPANSION IN HUNGARY**

American multinational conglomerate Honeywell will spend €10 mln (HUF 3.08 mln) to expand its base in Nagykanizsa in western Hungary, Foreign Minister Péter Szijjártó said on October 6. The government decided to allocate a HUF 761 mln grant for the project, which is expected to create 109 jobs, Szijjártó said. The investment will add 5,000 sqm to the base's existing 12,000 sqm. Honeywell employs 550 people in Hungary, at its base in Nagykanizsa and in Budapest.

## **IBM INAUGURATES TRAINING CENTER IN HUNGARY**

American multinational technology and consulting corporation IBM inaugurated a HUF 170 mln (\$687,000) training center for the staff of its international service center in Székesfehérvár in northwestern Hungary on October 16. The service center employs more than 1,500 people. Zsolt Veres, managing director of IBM Magyarország, said that information technology was a business in which today's knowledge may be enough for the present "but perhaps not sufficient for tomorrow".

## **MONDELEZ INAUGURATES CAPACITY EXPANSION**

American snack maker Mondelez International inaugurated a HUF 4.5 bln (\$18.1 mln) capacity expansion at its biscuits plant in Székesfehérvár, northwest Hungary, on September 19. Mondelez International already invested about \$45 mln (HUF 11 bln) in Székesfehérvár over the past three years in the development of the Székesfehérvár chocolate plant of one of its group members, Győri Keksz. Three new production lines have reportedly been installed, in order to produce Milka and Cadbury choco-bakery sandwiches exclusively in this plant, mostly for export but more recently for the Hungarian market as well. The investment was financed fully by company funds and created more than 350 new jobs in the region.

## **PANNONIA ETHANOL LAUNCHES €30 MLN EXPANSION**

Hungary-based Pannonia Ethanol is spending up to €30 mln (HUF 9.2 bln) on its project to expand its ethanol plant in Dunaföldvár (central Hungary), the company announced on December 10. For the project, the company signed an agreement on a HUF 25 mln loan from the Magyar Export-Import Bank (Eximbank) for the investment. According to the expectations of CEO Zoltán Reng, the current investment would double the plant's annual capacity from 220 mln to 450 mln liters as of next year.

## **R&D SPENDING CLIMBS MORE THAN 15% IN 2013**

Spending on research and development in Hungary rose 15.5% to HUF 420 bln (\$1.7 bln) in 2013, a report by the Central

Statistics Office shows. Almost half of the spending, some HUF 197 bln (\$801.3 mln), was by businesses. Some HUF 70 bln (\$284.7 mln) of the spending came from abroad, an increase of 24%.

## **SPECTRUM EQUITY, ACCEL PARTNERS INVEST \$57 MLN IN PREZI**

American growth equity firms Spectrum Equity and Accel Partners have invested a combined \$57 mln in Prezi, the presentation software company founded by Hungarians, CEO Péter Árvai informed Hungarian news agency MTI. Accel Partners has already invested in more than 300 successful technology companies, including Facebook and Dropbox, while Spectrum Equity has invested in more than 120 companies, among them SurveyMonkey. Árvai noted that Accel Partners and Sunstone Capital invested a joint \$14.5 mln in Prezi in 2011. The number of registered Prezi users has almost doubled, exceeding 50 million in the past year.

## **VENTURE CAPITAL INVESTMENTS REACH HUF 3.5 BLN**

Hungary's invested private and venture capital reached HUF 3.5 bln (\$14.1 mln) in the third quarter, doubling last year's figures of HUF 1.7 bln, the Hungarian Venture Capital Association reported on December 10. According to the association, the third quarter saw 24 investment transactions, with the largest of them accounting for 54% of the total value and ten exceeding a value of HUF 100 mln each. New investments accounted for 82% of the total value. The rest were repeat capital injections.

## **WOORY TO INVEST \$35 MLN IN HUNGARY**

South Korean car parts manufacturer Woory Industries is planning to build a factory in Komárom (northwestern Hungary), investing \$35 mln (HUF 8.67 bln) between 2015-2018, Hungary's Foreign Minister Péter Szijjártó announced at a South Korean-Hungarian business forum in Seoul on November 28. This would be Woory Industries' tenth plant and it is estimated that the investment will create 120 new jobs in the first phase of development, with plans to raise headcount a further 250 in the next phases, Szijjártó added.



**CAPITAL MARKETS**

# The Dark Side

*If Hungary's macroeconomic picture presented what was at times surprisingly good news in 2014, the capital markets fared much worse, offering what one of our analysts referred to as the "dark side of the picture". Here we look back at (yet another) disappointing year, and search for any signs of better news in 2015.*



*Hungary-based logistics giant Waberer's International, pictured here taking delivery of a new fleet of Mercedes lorries, may be considering a 2015 listing on the Budapest Stock Exchange.*

2014 was supposed to be the year things got better for the Budapest Stock Exchange. Mind you, we seem to have been saying that every year since the crisis hit. With the much-hyped Xetra trading system finally introduced to the Hungarian market on December 6, 2013, trading was supposed to be easier. More importantly, the same system now linked all four members of the CEE Stock Exchange Group: Budapest, Ljubljana, Prague, and Vienna. The year did not, however, live up to expectations.

"The main index was more or less flat during the year," says András Somi, head of research and content at KBC Securities. "It went from a low of 16,000 points to a high of 19,500, but spent the better part of the year in a narrow range from 17,000-19,000."

And it wasn't as if there was no good news out there. Somi pointed to the

unexpected rally on the U.S. stock market, on the coat tails of which many thought emerging economies such as Hungary could grab a ride. "We saw double digit growth in the S&P 500, nevertheless the Hungarian stocks did not go anywhere."

The specific challenge for the Budapest bourse is a lack of trading volume, the roots of which problem go back several years. "The institutionals all but disappeared from Budapest when the government nationalized the private pension funds; these were the biggest traders on the BSE." That is compounded in the case of Hungary by the lack of household investors, who took their money out of the market in the first couple of years of the crisis, and have yet to return, something Somi says is a "quite normal phenomenon". "It is similar to what we saw in the United States, but there the institutionals remained on the

market, and not all of the household market went away."

Even the BSE's four blue chips (Magyar Telekom, MOL, OTP, and Richter) struggled this year, impacted by the Russian factor, though that is not unique to Hungary. "Sentiment is very much affected by the Russian situation. Ukraine has some impact too, but it is rather a symptom of the problem, which is the Russian economy: oil prices, sanctions and the value of the ruble. This is a serious situation and will last a long time. Whether it will escalate to the scale of the Russian crisis at the end of the '90s we will have to wait and see," Somi says.

"A good example is the Austrian market, which I think of as being half Western European and half CEE. It is very affected by the Russian impact because the banking sector has great weight in the Austrian index, and these banks are affected by their own exposure to Russia. The problem with the Hungarian market is that three of the four blue chips are directly affected by Russia. Magyar Telekom is the only one that has no direct exposure."

Even M-Tel has its problems, though, not least the fact that it sits in one of the sectors that suffers under special government taxes. Even so, Somi says he is "cautiously optimistic" for the stock. One major reason is the possibility of a buyout by the German mother company, Deutsche Telekom AG. With a deal priced at HUF 420/share, and the stock currently trading at HUF 350/share, there is an immediate 20% upside potential for shareholders.

While no one outside of the company

knows the likelihood of a takeover, Ákos Kuti, head of research at Equilor, agrees that it remains a positive possibility. “Deutsche Telekom might consider this is a good time to do a delisting process and grab all the shares held by external parties, as it has decided it will not make a dividend payout, so no money will be going out of the company,” Kuti explained.

Interestingly, MOL isn’t greatly affected by the collapsing oil prices that typified the end of 2014. That is because the bigger part of its business is as a downstream refiner. Cheaper crude thus improves profitability for this unit. It does have an upstream exploration and extraction business, but the hit it takes is not big enough to offset the gains. But MOL’s dispute with the Croatian state over the management of Croat peer INA, which the Hungarian company controls, drags on. “One year ago we recommended MOL,” recalls Kuti. “Back at the start of 2014 it traded at HUF 14,000, now it is about 11,000, a 25% decline. That is related to the INA situation which is still unresolved, and I do not think it will be resolved in 2015 either; it is very complicated.”

OTP Bank has exposure in both Ukraine and Russia, and although the Hungarian and Bulgarian businesses have done well, there seems no likelihood of the former coming good anytime soon. Somi points out that this is a reverse of the picture during the financial crisis, when it was the Hungarian business dragging down the others. The forced conversion of FX loans into Hungarian forints and the so-called Fair Banking Law are not great news for the bank, but the fact that they have come into force does at least close the book on them, and allow the business to move forward.

“Like OTP, drug maker Richter has a strong presence in Russia; indeed, it has to, as the law only allows manufacturers with a base in Russia to sell drugs in Russia,” says Somi. That exposes the company to the crash in value of the ruble, points out Kuti. “That is why we track the ruble/HUF as a daily routine; it has a very strong correlation to the Richter share price.”

Given the prevailing conditions, both analysts agree that, for Budapest, the small caps currently offer the best ROI. The State Printing Company, ANY Biztonsági Nyomda Nyrt., and Graphisoft Park, which owns the office park of the same name, both had a very good year in 2014, but are unlikely to be able to replicate that in 2015. Suggested picks include ELMŰ-ÉMÁSZ, which could benefit from continued government buyouts in the energy sector, geothermal energy company PannErgy, and building materials manufacturer Masterplast, provided there is a continued upturn in the construction sector. Chemical company TVK continues to perform well but has a very small free float (it is 94% owned by MOL). “Otherwise all the other companies are very small to talk about,” says Kuti, somewhat sadly.

The Budapest bourse appears caught in a vicious circle: it lacks big names beyond its blue chips, and partly as a result lacks volume and liquidity. Without volume and liquidity, it is hard to attract big names. “The spiral is hard to break,” admits Somi. “We need some really serious names to enter

the market, but the more time it takes, the less compelling the reasons to join will be.”

There are rumors of possible IPOs next year (as there are in most years). Interestingly, Wizz Air is once again said to be considering making a public offering, having toyed with the idea in London in 2014, only to reject it because it felt the market was negative for the airline industry at the time. Kuti says such a listing would definitely help, provided it was at least partly on the Budapest market. “The rumors suggest it might rethink and launch a dual listing on London and Budapest; the current environment is very positive for airlines and these low costs in particular, so it would be a good time for an IPO,” Kuti says. Others said to be considering listing are flooring company Graboplast Zrt. and Hungarian logistics giant Waberer’s International Zrt.

Kuti quotes a recent interview given by Bálint Szécsényi, the head of Equilor, in which he suggested the government might consider floating at least parts of some of its newly acquired companies on the Budapest bourse. “If that happens, it could be a game changer,” he notes.

In the meantime, however, KBC Securities’ Somi won’t be setting the bar too high for 2015. “I hope the decrease in trading volume will stop or even show a slight improvement, with one or two new names on the BSE.”



**TGI FRIDAYS**

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**MACROECONOMIC**

# The Brighter Big Picture

*Compiling the yearend report for Hungary's macroeconomic situation and the capital markets, you cannot help but be struck by how divergent they are. Here, then, is the good news.*

**A**ccording to data released in early December by Eurostat, the EU's statistical office, Hungary's GDP growth was the second fastest in the whole of the Union in both the second and third quarters of 2014, tied with Slovakia. Ironically, Hungary's year-on-year growth in Q3 (3.1%) was the lowest reading for the past few quarters. But even quarter on quarter growth of 0.5% is still more than double the average growth of the euro area.

(Seasonally adjusted GDP rose by 0.2% in the euro area and by 0.3% in the EU28 during Q3 2014, compared with Q2, Eurostat said. Quarter-on-quarter GDP growth in the euro area has been lagging in the 0.1-0.3% range for several quarters.)

While it is worrisome that Hungary's Q3 growth shows clear signs of slowing, there can be no denying the overall results, which outstripped all predictions from the start of the year.

"We did finally see some really nice growth numbers, and inflation is very low," said András Somi, head of research and content at KBC Securities. "You could argue it is too low, but it does at least give room for the central bank to somehow stimulate the economy, and we see signs of consumption ramping up."

According to Ákos Kuti, head of research at Equilor, 2014 "was quite different from our expectations". Perhaps the biggest surprise had been the continuation of the interest rate cutting cycle. "It started the year at 3%, and most analysts, including us, saw that process ending at 2.5%." The rate in fact went down to 2.1%, and there has even been some talk of cuts resuming in 2015. "By the end of the year we



*Reasons to be cheerful: The economic figures in 2014 have given Economy Minister Mihály Varga cause to look happy.*

expected a 1.7% increase in GDP; we will certainly exceed that," Kuti says. "For the consumer price index we predicted 2.5% for December. At the end of November it was -0.7, so it will finish the year significantly lower than we expected. The government budget deficit is in line with expectations, and while treasury yield was below our initial forecast, that was driven by the national bank base rate cuts, and considering that was not a huge surprise."

Somi expects the good news to continue into 2015, at least in the short-term. "We still think that the macroeconomic big picture looks nice; these trends can last into 2015 as well. There is one very big 'if', which is that international investment remains agreeable. Many of the improvements in the Hungarian picture come – directly or indirectly – through investments. We do not see any reason to be worried about these trends breaking in the short-term, though

we do need to see economic policies that are favorable from an investment perspective," he noted.

Kuti predicts lowered GDP growth for Hungary at around 2% in 2015. "We expect the budget deficit to come in slightly below 3%, because the government will have a very strict attitude to meeting the Maastricht Criteria and thus avoiding a return to the excessive deficit procedure. We expect inflation to be around 2% for 2015 compared to 2014 headline CPI."

Hungary remains a very open economy, and external risks could easily have a bearing on how 2015 develops. Continuing tensions remain between Russia and the EU, and sluggish demand from Germany in particular, and from the eurozone in general could slow Hungary's growth. "Some might talk about the Greek situation; that could evolve by the end of the year," adds Kuti. "And Ukraine might have an impact."



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**ANDRÁS TÖRÖK'S BUDAPEST**

# The 50-year-old Elisabeth Bridge and

**E**lisabeth Bridge as we know today turned 50 in November 2014. A wave of nostalgia flooded printed and electronic media alike. The opening of the then new bridge was a significant moment indeed in the history of Hungary. With it, the last really visible war scar disappeared, but there was another important underlying phenomenon: 'modernism' broke through in Hungary – up to then a backward-looking, shabby country, licking the wounds inflicted in the last war and in the revolution of 1956.

The plaque at the Pest end did its best to summarize that, albeit in a clumsy style: "There has always been a favorable crossing-place here. From the 16th century on, there was a boat-bridge. Later on, between 1898 and 1903 the Elisabeth Bridge, the fourth vehicular bridge of the new Budapest was constructed here. The already defeated and pointlessly all-destroying fascists blew up this masterpiece of Hungarian bridge building on January 18, 1945. The new Elisabeth Bridge was constructed with three years' work, inaugurated in 1964. Let this work praise the life force and the peaceful creativity of our people building socialism." So this bridge was turned to propaganda purposes, as was everything in those days. Luckily, people already liked this bridge – following its day-to-day construction had been a popular pastime for Budapesters.

Margaret Bridge (since 1876), and Franz Joseph Bridge (since 1896, it is now known as Liberty bridge). It was named after the wife of the Habsburg Emperor Franz Joseph, the queen the Hungarians loved and mourned so (she was assassinated in Torino in the year the construction of the bridge was begun). Designed by Aurél Czekelius and Antal Kherndl, the pillars supporting the portal of the bridge were built right on the riverbank, not in the usual riverbed. Thus the 290 meters middle span made it the public bridge with the largest span in the world for 23 years. And it was very beautiful. No one, comparing the two designs, prefers the modern version these days, when old things have a special charm. But that was not the case in 1964, when people all over the

world were under the spell of 'modern times'. They simply adored state-of-the-art, unadorned designs.

The old Elisabeth Bridge was a chain bridge. The original winning plans of the German designers Kübler, Eisenlohr and Weigle, were swept aside, as they proposed a new fangled cable bridge – and cables were not produced in Hungary in those times. The Art Nouveau look of the bridge

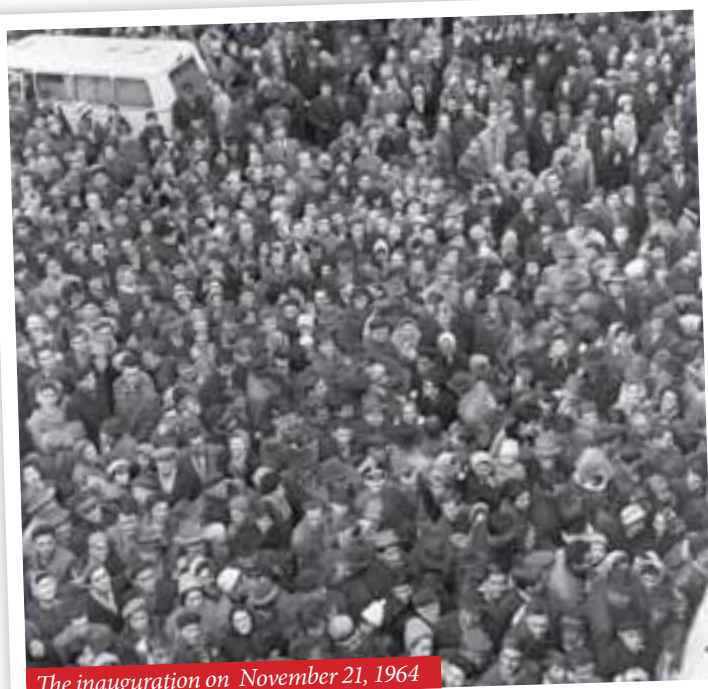
was outlined by architect Virgil Nagy; it emanated a quiet, grandiose charm, that added much to the new inner city Budapest that was being laid out at the turn of the 19th and 20th century.



*Elisabeth Bridge before WWI*



*Elisabeth Bridge just after WW2*



*The inauguration on November 21, 1964*

The original Elisabeth Bridge was built between 1898 and 1903; the income that made it possible were the tolls collected from the Chain Bridge (collected since 1849), from

After WWII, all the other crossings were reconstructed in their original form, so why not Elisabeth Bridge? There are at least three answers. The first is practical. Only the Pest pillars survived the explosion (while all the pillars of the other bridges remained relatively intact). The second is also practical: the city wanted to build a much wider bridge, to cope with growing motorization. So the remaining pillars could not be used. And in an enlarged form, retaining the pretty proportions of the earlier bridge would have been exorbitant. The third reason takes us back to propaganda: Communist Hungary did not, at this stage, do reconstruction; rather it was all about forward-looking, modern design.

The new Elisabeth Bridge links Március 15 tér in Pest with Döbrentei tér in Buda.



# the Breakthrough of Modernism



Designed by engineer Pál Sávolý (following very closely the design of a crossing in Cologne, Germany), it was built between 1960 and 1964. Suspension cables, each consisting of a bundle of 61 separate strands, connect the twin towers. The vertical suspenders are not fastened to the cables, but kept in place by the weight of the bridge. There was one nod to the past, however; the present bridge imitates the arch of the old one.

To test the bridge before its inauguration, 126 vehicles, buses loaded with sandbags, trams and lorries were driven onto the bridge. In total the load was 2,000 metric tons; the sinking at the central part amounted to 90cm – exactly as planned.

The opening of the bridge was on the afternoon of November 21, 1964 and turned into an impromptu festival despite the drizzle. I vividly recall going to see the new bridge with my piano teacher, who cancelled our lesson for the occasion. The new Erzsébet híd had virtually become the symbol of the capital, the first modern, yet beautiful, attraction of the city. To walk over it, on the other hand, was never a pleasant experience. Too noisy, too wide, and 'leads to nowhere' in Buda. Nine years later, when the river-crossing M2 was fully operational, the



*The great test*

tram tracks were removed from the bridge. Returning them is back on the agenda.

Elisabeth Bridge is remembered in the last 50 years for reasons other than simply crossing the river. In October 1990, in the first year of the new democracy, taxi drivers protesting against a hike in petrol prices, blockaded it.

On May 1, 2004 when Hungary joined the EU, there was an art project hung from the bridge, showcasing the triumphs of the Hungarian water polo teams. And just recently, the tens of thousands of unexpected anti-internet tax demonstrators, with their smart phones lit, turned toward the fall sky.



*A family picnic on the bridge, during the taxi drivers' blockade, on October 27, 1990. (Photo MTI)*



**VISIONARY SERIES**

# Who Wants to Live Forever?

by **ROBIN MARSHALL**

*Are you prepared to live forever? That was the provocative question posed at the Hilton Budapest on September 30 for the second talk in the Visionary series celebrating AmCham Hungary's 25th anniversary this year.*



**M**oderated by outgoing AmCham President Willy Benko, this thought-provoking, at times shocking event featured two keynote speakers: Professor András Falus, from the Department of Genetics, Cell- and Immunobiology at Semmelweis University; and medical futurist Dr. Bertalan Mesko, managing director and founder of Webicina.com, a service curating medical social media resources for patients and medical professionals; as well as designing customized solutions for pharmaceutical and medical technology companies through social media. They were joined for a roundtable discussion by László Nagy, Director of Technology Development at GE Healthcare; Dr. István Peták, Founder and Scientific Director, KPS Biotechnology and Molecular Diagnostics Ltd., Senior scientist, Pathobiochemistry Research Group, Hungarian Academy of Sciences; and Dr. Judit Zolnay, Deputy General Manager at health insurance company MetLife.

Their conversation and Q&A session with the audience covered ground as wide ranging as the development of new sciences such as genomics, to medical technology breakthroughs, to the official value of a human life (a year's dialysis treatment, although the exact cost is not made public;

new life-saving drugs have to come in at least less than this to stand a chance of getting approval for development). And that barely begins to cover the content covered.

Much of the conversation revolved around cancer, and the advances made since U.S. President Richard Nixon signed the National Cancer Act in 1971. While some see disappointing progress, others point to the recent advances in our understanding thanks to the studies of genes. In this battle, it seems our bodies are both our first line of defense and our own worst enemy, as András Falus explained. "Every ten minutes a cancer cell is generated in our body. However, 99.99% of cancer cells are recognized, isolated and killed by our immune system." The 0.01% of cells that survive and develop into full-blown cancer are, by definition, easier to spot – they are multiplying and growing, after all. Unfortunately, they are also the hardest to kill. "These cells are very smart cells. These cells have already won when in a similar situation against the immune system."

Cancer research is an area that has particularly benefited from genomics. When the Human Genome Project was completed in 2003, work started to sequence the genes in cancer, with some 138 mutations responsible for cancer already identified. Now medicine is starting to be tailored to those specific genes.

Two other recurring themes from the evening were the increasing use of multiple, complimentary strands in treatment, and an ever more personalized, individual approach to diagnosis and treatment. Advances in computing power, for example, make it possible to analyze big data more quickly and thoroughly, data mining greater amounts of information for better results. Technological advances obviously help in coping with injury and illness, but also aid in prevention. Lifestyle choices will become an ever more important part of the treatment matrix.

Bertalan Mesko is, by his own admission, obsessed with machines and technology. He says he knew he wanted to be a doctor from age six, but once he had qualified, and then gone on to get his PhD in genomics, he felt strangely flat. "I realized I had ignored that whole 'geek' part of my personality," he told after the event. His answer was to create a profession which did not previously exist – medical futurist – and which he is now beginning to teach to others. He has also written a book aimed at his medical colleagues ("The Guide to the Future of Medicine").

We already live in a world where sci-fi like exoskeletons allow the paralyzed to walk again, he pointed out. "The world is going to change dramatically in healthcare and that is going to cause problems," he warned the audience. "Nobody is ready for such transformations." Everyone needs to be better prepared for the future, doctors and patients alike. "Right now we have 'sick care', not healthcare. I would teach kids [about healthcare] from age six. [...] Patients should have better health literacy, and doctors should have better digital literacy." Genetics specialist Falus agreed that our own role in our life has to be drilled in to us: "We have to teach people from kindergarten that we are responsible for our own health."

## AMCHAM AND GE CELEBRATING 25 YEARS WITH HUNGARY



GE imagination at work

*AmCham, the key representative of United States and international businesses in Hungary, is proud to have celebrated its 25th anniversary together with its founding member and the largest U.S. investor in Hungary, GE.*

## VISIONARY SERIES

# Interconnectivity and Networks in the Digital Era

*The third installment of AmCham's 25th anniversary Visionary Series of talks, held at the Marriott Budapest on October 15, focused on interconnectivity, mainly in the man-made world of business and social networks, but also in the natural world, at the cellular level at which our networks, quite literally, hold our very bodies together.*

**T**he keynote speaker for this latest event was Albert-László Barabási, a network analyst so highly thought of that his name regularly comes up when scientists discuss who might be the next Nobel laureate of Hungarian ethnicity.

And it is appropriate he has Hungarian roots, for network analysis turns out to be something of a Magyar specialty. Facebook made the concept of 'Six Degrees of Separation' (the idea that everyone in the world is connected to everyone else in the world by a chain of no more than six acquaintances) popular in the early 2000s, but in 1990 a Broadway play of the same name had brought it to the attention of the pre-Facebook generation. Barabási says before that, in the 1960s, it had been a game played by Harvard Scientists. But the first person to articulate the concept was actually the Hungarian author and playwright Frigyes Karinthy, who wrote about it in his 1929 short story 'Chains' ('Láncszemek').

That was later developed by the brilliant and prolific (if eccentric and nomadic) Hungarian mathematician Pál Erdős (better known in the West as Paul) and his colleague Alfréd Rényi. They collaborated on the study of what Barabási called "messy" networks, because "messy looks like random in a mathematicians language". In 1959 that produced the Erdős-Rényi model of random graphs, which in turn was applied as the random network model. It gained the pair much mathematical fame, but Barabási says it is wrong when applied to networks. That is because it assumes all nodes will have more or less the same number of links attached to them, give or take 300-400. Life tells us



Albert-László Barabási

this not the case. "Effectively, a random society would be very boring and uniform," Barabási points out.

What the random model is missing, Barabási says, is the idea of larger nodes, called hubs. But he and his team only discovered that once they started to research the way the World Wide Web was connected in the 1990s. They were unconcerned by the content they found in the nodes (documents), merely looking at the number of links (URLs) attached. "We thought it would be random: some people care about large machines, some about computers, others about sumo wrestling. What we found was not random." In 1999 he and Réka Albert published their scale-free network concept, the Barabási-Albert model, which suggests that if networks are expanding, links will want to join the most popular hubs (those with the most links).

But they subsequently found the model could be applied beyond the web. "The same types of networks occur in nature, even on a metabolic level. The World Wide Web has been around for 20 years, the

Internet for 50. These [metabolic networks] were created four million years ago by evolution. Completely unrelated systems show the same architecture." If the random network model could be likened to the U.S. highway network, with similar numbers of highways linking towns (nodes), then scale-free networks are more like an airline route planner, with some airports much bigger than others. "It is hubs that make the difference," Barabási explained. Network analysis can take you to many apparently disconnected studies, the scientist said. He has a company in Hungary called Maven7 that helps businesses through organizational network analysis. He has colleagues in the United States who have taken modeling to the level that, from 2009, predicting the spread of epidemics "became a science, became terribly accurate". The clue that previous modeling was wrong was the spread of AIDS, he said. "AIDS is very difficult to pass on; typically it takes 200 sexual encounters to catch it. According to traditional models it should not spread. But AIDS did because of scale free networks." The problem, he said, was a social issue people did not want to address: prostitution. Sex workers became the hubs through which AIDS spread through the world.

His presentation was followed by a roundtable discussion, moderated by Norbert Fogarasi, AmCham's First Vice President, in which Barabási was joined by Eszter Szabó, Corporate Communications and Public Affairs Leader for CEE, GE; Dr. Gábor Fáth, Executive Director and Head of the Market Modeling Group, Morgan Stanley; Dominic Köfner, Vice President, Group Corporate Communications, MOL Group; and Christopher Laska, CEO, Telenor.

**SEMINAR**

# Small but Significant

*Although the latest amendments to the tax legislation are relatively few, they act to strengthen control and will drive the total bill upward, an AmCham-EY tax seminar was told.*



**'S**mall Changes – but a Growing Tax Bill' was the title of the joint seminar organized by AmCham and EY on December 8. At the conference, EY tax partners Tibor Pálszabó and Zoltán Lipták presented next year's key tax law changes in regards to corporate tax, transfer pricing, investment fund tax and personal income tax.

"A main theme in the tax law amendments is an increased protection of budgetary revenues," Pálszabó, who is responsible for the firm's business tax advisory practice, told the conference. "This is achieved through new restrictions on the use of carried forward tax losses, a new restriction on goodwill amortization, a new electronic freight tracking system to combat VAT fraud and stricter requirements on inter-company pricing."

He added, "New, or significantly increased taxes will be levied on food product retailers, tobacco companies, alcohol retailers and investment funds. Even though there are also favorable changes, the system altogether is becoming slightly stricter and tax costs will somewhat increase."

Lipták, who is responsible for the firm's transfer pricing practice, highlighted one change with the potential to have major ramifications for multinational companies. "The introduction of the interquartile range as a compulsory measure is potentially the most significant legislative change in the field since the enactment of the transfer pricing documentation rules in 2003. Those companies who adapt some sort of a margin targeting in their intra-group pricing (over a half of multinational enterprise subsidiaries operating in Hungary) will need to react immediately," he warned.

Zoltán Lipták (*above, right*) is a partner of EY Tax Services leading the firm's transfer-pricing practice with more than a decade-long experience as a tax professional. He has broad experience in transfer pricing planning and controversy advisory as well as transfer pricing compliance with a focus on financial markets. His fields of expertise include international taxation advisory – structuring and implementation of outbound and through bound Hungarian investments.

Tibor Pálszabó (*above, left*) is a partner of EY Tax Services leading the firm's business tax practice with more than seventeen years experience as a tax professional. He has extensive experience within the areas of cross-border transactions, acquisitions and mergers, and group restructuring transactions. Tibor is the leads the financial services tax group in central and south Europe.



## FORUM

# Pondering the Price of Oil

by ROBIN MARSHALL

*Perhaps the biggest uncertainty facing Hungary's economy in 2015 is what will happen with the price of oil, Deputy Governor of the Hungarian National Bank (MNB) Ádám Balog told AmCham delegates at a business forum on December 9.*

**“W**e are trying to understand what is happening in the oil markets – and if anybody here knows, please tell me. It seems it is partly political, partly market driven, but we do not really know what will happen.” The current consensus at the bank is that oil prices were unlikely to rise again in the short-to mid-term, he said, but it was an issue of real debate.

This is far from a uniquely Hungarian problem, of course. Bloomberg reported on December 11 that Brent crude had fallen below \$65/barrel for the first time since 2009 with OPEC cutting its forecast for demand in 2015. That in turn raised concerns over the strength of the global economy with no clear indication of when the plunge in prices might bottom out. It also left investors scratching their heads somewhat about where to invest, as traditional safe havens like copper and even gold also lost value.

Balancing the budget to account for lost tax revenue is the government's headache, rather than that of the national bank, but the MNB might well have to move on interest rates in response. The key questions will be when, and in which direction.

“This right now is one of the most important questions and internal debates,” said Balog. But given the uncertainty, it would be wrong to make any snap decisions at this time. “I think our view will be that we have to wait and see for the next three to six months and then we will move,” he said. “As long as we 51% believe this will be short- to mid-term, we will not make any major decision based on this, as it is not robust enough.”

It is not the only challenge out there, needless-to-say. If tensions between Russia



and the West continue to worsen, it will affect Germany, Hungary's major trading partner. “We are not extremely worried about this, but we have to take this into consideration,” Balog said. “The most important problem for us in particular concerns the eurozone and whatever happens there. There is a risk for inflation and economic stagnation. The Japanese situation is closer and closer, though I must stress here there is not the national bank's view but mine.”

The fear that the older EU states could hold back the more vibrant and better performing Central and Eastern European members was just another example of why an open economy such as Hungary had to broaden its trade base, Balog said, in an obvious nod to the government's ‘Opening to the East’ policy. “We have to find new markets, be they in the east, west, north or south I do not really care, but we have to find new markets for the next 10-20 years.”

Talking about the changes made in the domestic economy, he said one of the most important was a rebalancing from a period of near pure market competition to one of much stronger regulation. It had not been popular, he admitted (“people do not like change, businesses do not like

change”) but it had been necessary. It was also a means of fighting corruption.

“There has to be a strong competition between the bureaucracy and the market, because neither can exist without the other. You need good, well-paid bureaucrats against good, well-paid business people.”

Effectively the argument he was making was that, with the proper balance, the two sides keep each other honest. “I strictly believe in checks and balances,” he said. If either party was in the ascendance, it was bad for the economy. In his previous private sector life he said he had never personally experienced corruption, but had seen what he called “dysfunctioning bureaucracy” when people lacking the necessary skills had been working in the wrong jobs and were thus exploited.

Looking to the future, he said there were clear signs the economy was improving, but accepted more could be done. He hopes the creation of the Asset Management Company (MARK Zrt.), which would take over toxic and poorly performing loans from the banks' portfolios, will mean “they can use that money for real lending”.

# New Year, New Board

by **ROBIN MARSHALL**

*AmCham members elected a new president, second vice president and five board members at the annual assembly on December 3. VOICE is pleased to be able to introduce the chamber's newly constituted governing body.*

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**Ferencz Pongrácz**

## **FERENCZ PONGRÁCZ**

**Business development executive of IBM Southeast Europe President**

Ferencz Pongrácz, who has been second vice president since 2013, was elected on a platform of representation, leadership and motivation. "I have 15 years experience of leadership roles in large, complex organizations like IBM and PwC," he told members at the annual assembly. "It is not a problem if there is conflict," he said, "it is a problem if you can not manage



**Dr. Andrea Jádi Németh**

conflict." He insisted he had good relations with members and office staff, before adding, "There is one more important thing, and that is motivation: and I am motivated!"

In his submission to members before the election he highlighted his role as second VP and his involvement with the organization of the 25th anniversary year events. "Most importantly I have been trying to spread AmCham's messages and initiatives in my personal network and on public forums."

He also highlighted some of his other skills. "I am a frequent speaker at science, business and NGO related events and conferences," he wrote, adding, "I believe one of the most powerful ways business leaders can support their wider community is mentoring younger talents. I actively practice mentoring within and outside IBM."

## **DR. ANDREA JÁDI NÉMETH**

**Managing partner of bpv | Jádi Németh Attorneys at Law  
Second Vice President**

Dr. Andrea Jádi Németh, who was first elected to the board in 2009 and had previously served as second VP (from 2011-13), also contested the president's position. She spoke about AmCham as a "platform and strong voice for companies and as a powerful representative of values and business interests". She said she wanted to serve AmCham that "drives the change of the country's business ecosystem, integrates talent and human capital, drives Hungarian companies to go global and facilitate improving a strong image of Hungary as a worthy business destination".

In answer to the question why she would make a good leader of the chamber, she pointed to the combination of independence and strong affiliation that is also a pillar of operation at her law firm, which regularly acts for some of the biggest businesses in Hungary. She argued that this duality could be to AmCham's comparative advantage and a powerful feature. She added: "Representation is my profession. This is me, this is what I do best. And that is what I am offering you now."



**Andrea Juhos**

In her written submission she had earlier said, "...being involved in the regulatory committee offered me the most precious opportunity to give best run of my professional knowledge for AmCham. As long as AmCham keeps on carrying its ultimate objective to enhance the global competitiveness of Hungary, I will constantly be inspired."

## **ANDREA JUHOS**

**Managing partner of Lee Hecht Harrison Hungary  
Board member**

In seeking re-election for her second successive term as a board member, Andrea Juhos said she would rely on facts, on what she had done in the past two years, rather than on promises of what she might do. During that time she has chaired the labor and education committee, hosting the successful career school program, as well as being involved in the well-regarded language ambassador project and the roundtable discussions on the future of higher education.



**Dr. Farkas Bársony**

But for all her reliance on facts, she still has plans for the future, and particularly improving Hungarian language-learning skills. "I want to take the language ambassador's program to a brand new level by having students visit our workplaces to get a better understanding of the world of work."

In her written submission she described the committee she has chaired as "perhaps the most important committee supporting Hungary's competitiveness" and spoke of her vision for its future: "Our priority must be the further improvement of the level of our vocational and higher education as well as the language skills of our fellow citizens."

## **DR. FARKAS BÁRSONY**

**Managing director of GE Hungary Kft.  
Board member**

New member of the board Farkas Bársony will seek to bring to bare his experience in leadership positions (he is currently managing director of



**Liam Crow**

four GE companies in Hungary), his professional skills (he has a tax and legal background, and serves on the chamber's taxation committee) and his knowledge of American and Hungarian business life.

Asked why he felt qualified to serve on the board, he said "I have been working in an environment where Hungary was always placed in its international context and had to find ways and solutions good for both the country and businesses. In summary, the main skills I would like to bring are expertise (finance law), global thinking, negotiating and leadership skills."

Speaking of the chamber itself, he said "the main business players (and related organizations) in Hungary simply cannot afford not to be part of it, especially in this fast changing environment. However, the main importance of membership for me is that AmCham provides a unique and probably the most effective platform to influence the business environment in the country."





Bea Előd

### **LIAM CROW**

**Business development manager  
of FirstMed Kft.  
Board member**

Liam Crow is an American, married to a Russian, whose educational journey has taken in a BA in history at Denison University (Granville, Ohio), Chinese language at the People's University of Beijing, and an MBA at Corvinus University. His first experience of Hungary was on his way back from Beijing, when he found himself in the Hungarian capital for the 'Budapesti Búcsú', a farewell party celebrating the official withdrawal of the last Soviet troops from the country on June 19, 1991.

He returned in 2003 to study for his MBA having left his job as an options 'market-maker' in the Chicago Board of Trade and CBOE. Speaking of what motivated him to become a board member he said, "Since my arrival in 2003 I have seen great strides taken by Hungary, but there



Krisztina Varga

still remain great challenges ahead. The professional growth that I have experienced over the past eight years while working through the financial crisis, as well as evolving and adapting to the new market, has given me a unique insight and skill-set that I believe would be a positive contribution to the board."

The chamber, he said, "not only provides a forum for members to express challenges, but also a collaborative platform for overcoming difficulties".

### **BEA ELŐD**

**Head of service center at Citi  
Service Center Budapest  
Board member**

Bea Előd joined Citi as a fresh graduate 25 years ago in a move that also linked her with the very start of AmCham, as one of her first job was to set up and manage the AmCham account at the bank. She also attended the chamber's first events.

"I truly believe in Hungary and I love my country. I truly believe together we can do many things to make this country successful."

In outlining the skills that she would bring to the board, Előd was equally positive. "Given my educational background in law and economics, I feel I could contribute to AmCham's missions in taking a stand on economic policy issues, government decisions – as well as the establishment of a strong and cordial relationship with local ministries and other professional organizations and schools."

A mother with two daughters, she is the founder and senior sponsor of the Citi Women Hungary Network, and also a member of the Hungarian Women Business Leaders Forum and its 20 20 20 Club.

### **KRISZTINA VARGA**

**Regional business operation  
director at Hewlett-Packard  
Hungary  
Board member**

Krisztina Varga challenged members to look in the mirror in choosing her. "I do like looking into the mirror, and not only because I am a woman, but also because I see the history and heritage there." But if she were "brave enough", she said she could also see the future. "The show must go on. That is what we are here to do: to think, act and deliver."

She continued: "Time matters, and AmCham has to be the first to integrate new ideas. It has to be first to be outspoken about healthcare, administration, bureaucracy that prevents Hungary from being competitive." If AmCham didn't speak out when necessary, who would, she asked. "People who know me say I have fallen in love with AmCham. I am passionate about what we can do."

Asked what motivated her to become a board member, she said, "I believe that what we do is what we are. Only human efforts, people can drive change. I will work in driving this effort to make it successful."

## SUMMIT

# Entrepreneurship: 'Magic will happen'

*No one is born an entrepreneur, and there is no one path to becoming one, according to delegates at the Third AmCham Entrepreneurship Summit on September 24.*

The first keynote speaker was Robert Mitchell, vice president of business development and strategic partnerships at Crowdfund Capital Advisors. He and a group of friends realized that, post-crisis, a lack of access to funding was stopping many people from starting up or developing an otherwise viable business. "The solution we came up with was crowdfund investing. Essentially it is nothing new, it is 'friends and family' investing. We just took it and made it possible online," he said.

But first they had to change some Depression-era legislation. While the regulations allowed kick-starter style funding for businesses yet to launch, they prevented individuals from investing as individuals in the capital markets unless they were legally defined as a millionaire. Mitchell and his colleagues had enough vision and passion to overturn that, despite at one point being told 'You're crazy'. In January 2011 they began lobbying; 460 days later, in April 2012, President Barack Obama signed into law the Jumpstart Our Business Startups (J.O.B.S.) Act that they helped frame.

It frees up access to money. Half of all venture capital is invested in three cities in the United States, said Mitchell; 90% is invested in just five. But not everyone can live in Boston or New York or San Francisco. "Crowdfunding allows capital to flow to where those people are."

Talking of the building blocks essential to success, Mitchell emphasized the idea of always being open: to opportunities, obviously, but also to knowledge. "The most important thing you learn in university is how to learn," he said. What



you learn will in time become outdated, but learning itself must be life-long.

A big part of being successful is building a team of people with different but complementary skill sets. "It only takes an average idea to start a company," advised Péter Balogh, Founder and CEO of navigation software company NNG, "It takes a great team to make it remarkable."

Kevin J. Aspegren, serial entrepreneur, president of the American University in Bulgaria, and general partner of private equity and venture capital firm Chastain Holdings, LLC, said that matching up personalities and skills are essential. "If you are going to have partners, make sure they are the right ones. If you want to start a tech company and it is just you and three accounting guys, you are probably in the wrong team."

Perhaps one of the areas of greatest disagreement concerned intellectual property laws. Attila Erdős, CEO of Humeltis Ltd., argued that too many researchers and scientists did not know the rules regarding ownership of IP generated on-campus (it resides with the school and must be licensed), which made investing in university spin-offs questionable. Tamás Bene, vice director and legal advisor at Debrecen University's Transfer Technology Office, said Hungary's laws were broadly in line with the rest of Europe. "The theory may

be in line, but the practice is not," countered Erdős. Another theme raised was the best time to get started. Balogh, of NNG, said there was no perfect time, so you might as well jump in now. "Entrepreneurs are those who start before they are ready," he said. Gergely Kiss, founder & CEO of mobile applications company Attrecto Zrt., was also in the 'sooner rather than later' camp. "Learn English and just start [...] start to act, get involved in something. You have great access to information. Start to talk to other people and magic will happen."

The summit was held at the lecture hall of Corvinus University, in front of an audience of more than 200 and followed via live streaming by many more at the University of Pécs. Co-organizers of the event were the U.S. Embassy, Corvinus University of Budapest, CEU Business School and the Hungarian Venture Capital and Private Equity Association. The conference was sponsored by bpv Jádi Németh Attorneys at Law, EY, InfoGroup, Sopreso and Ustream.

The summit also saw the launch of 'Vállalkozni jó!', a Hungarian-language publication featuring a series of interviews with successful Hungarian entrepreneurs, including the founders of GRAPHISOFT, Masterplast, NNG, Prezi, ProfiPower, Ustream, and Wizz Air among others. The goal of this booklet is to present corporate best practices and ethics and to encourage entrepreneurship in Hungary. The book is a cooperative effort of dozens of volunteers, published by the AmCham Hungary and supported by 30 publication partners, including 11 universities and eight chambers of commerce.

*The book can be downloaded free of charge from <http://bit.ly/1op7Brp>.*



# New Members On Board

## BUSINESS



### Air France KLM



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AIR FRANCE KLM is a major player in the air transport industry. The group operates the leading long-haul network on departure from Europe. With their partners Delta and Alitalia, AIR FRANCE KLM operates the biggest transatlantic joint venture with more than 250 daily flights. The group's frequent flyer program, Flying Blue is leader in Europe.



### CNA Executive Search Hungary Kft.



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CNA Executive Search Hungary Ltd. is member of Pertemps Group, the largest, privately owned recruitment business in the UK. We are a team of highly experienced executive consultants with a strong knowledge and understanding of the local market. We strive to help our clients on regional and international basis to find an individually tailored solution in sourcing the best talent. We offer our clients a personalized approach which is based on the industry's best practices and standards, and which enables us to deliver high quality services across CEE & CIS.



### KCG Partners Law Firm



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KCG Partners is an independent Hungarian corporate law firm. It provides legal services to clients seeking local knowledge and global perspectives. KCG Partners comprises business-minded lawyers with sector-specific expertise, creating value for clients by applying a problem-solving approach and delivering innovative solutions. The firm has deep expertise in M&A, projects & energy, real estate, tax, employment, litigation, privacy and forensics, securitization, estate planning and capital markets. The firm also cooperates with other independent law firms in the CEE region.



### Impact Language Solutions Kft.



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Established in 1997, Impact Language Solutions provides top-quality translation and interpreting services in all major languages, as well as bespoke business English courses, to clients in Hungary and abroad. We work with leading banks, law firms, listed companies and multinationals. Our specialist areas are financial, legal, medical, marketing and technical translation. We provide certified translations on request. Our firm delivers English translations at fully native speaker level at very short notice and at an excellent price.



## BUSINESS



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Sir Alec Reed opened the first REED office in 1960. REED now operates in Europe, the Middle East and Asia Pacific. REED has approximately 3,000 permanent employees working across 180 locations worldwide. Reed Specialist Recruitment is a specialist provider of permanent, contract, temporary and outsourced recruitment solutions and HR consulting.



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PORREAL Hungary is the subsidiary of PORREAL Facility Management GmbH. As a full-service provider in the real estate industry we offer services in the areas of property and facility management as well as real estate consulting. PORREAL Group operates from locations in Austria, Hungary, Germany, Poland, Czech Republic and Romania.



### Ryan Tax Services Magyarország Kft.



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Ryan, a leading global tax services firm with the largest indirect and property tax practices in the United States and Canada, now provides a single source worldwide indirect tax solution that is unmatched in the industry today. Hungarian companies gain access to an integrated suite of VAT recovery, advisory, and compliance solutions; innovative tax technology offerings; and international income tax and transfer pricing services that dramatically improve tax performance and profitability. Ryan's Hungarian operation is located in Budapest.

## START-UP



### Angloville Kft.



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Angloville is the largest provider of language immersion programs in Central Europe. We bring in English native speakers from around the world to create a six-day language island right here in Hungary, where participants receive 70+ hours of one-on-one training to overcome communication barriers and improve their language skills.

**START-UP**



**Human Priority Kft.**



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IPS Management Services Ltd. is an independent advisory and project management company with unique know-how and network in the fields of

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or +36 1 428-2080

We are proud to launch the Successful Entrepreneurs publication, a collection of interviews with the most successful entrepreneurs in Hungary. The purpose of the book is a demonstration of how and why entrepreneurs dared to try and succeeded in their own private business. The project is driven by the Governance & Transparency Committee of AmCham and is supported by 25 publication partners, including universities and chambers of commerce.

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# AmCham Events –



## **AMCHAM ANNUAL GENERAL ASSEMBLY AND BOARD ELECTIONS 2014**

Wednesday, December 03, 2014

Location: Budapest Marriott Hotel



## **AMCHAM WORKSHOP WITH GÁBOR GARAI HONORARY CONSUL GENERAL - ENTERING THE U.S. MARKET**

Tuesday, December 02, 2014

Location: AmCham office



# Photo Coverage



## *AMCHAM-MARRIOTT CHARITY THANKSGIVING DINNER 2014*

Tuesday, November 25, 2014  
Location: Budapest Marriott Hotel



## *AMCHAM CAREER SCHOOL WITH NORBERT FOGARASI, GENERAL MANAGER OF MORGAN STANLEY HUNGARY*

Tuesday, November 11, 2014  
Location: AmCham office



**AMCHAM AND ACF  
PLANT 25 TREES  
TOGETHER WITH  
ALCOA**

Tuesday, October 28, 2014  
Location: MEREK



**AMCHAM CAREER  
SCHOOL WITH JUDIT  
POLGÁR,  
CHESS WORLD  
CHAMPION**

Tuesday, October 21, 2014  
Location: AmCham office



**AMCHAM CAREER SCHOOL  
WITH MIKE MICHEL,  
CHIEF MARKETING  
OFFICER, TELENOR HUNGARY**

Tuesday, October 14, 2014  
Location: AmCham office



**START YOUR BUSINESS!**

Wednesday, October 8, 2014  
Location: University of Óbuda





## HOW CAN YOU INCREASE CORPORATE COMPLIANCE AND TRANSPARENCY? - AMCHAM WORKSHOP ON WHISTLEBLOWING

Monday, September 29, 2014  
Location: Budapest Marriott Hotel

Dr. Barna Berke,  
Secretary of State,  
Ministry of Justice



Tara M. Lee, Global Partner, DLA Piper



Anna Myers, Expert Coordinator,  
Whistleblowing International Network

## SIXTH AMCHAM ANNUAL SPORTS DAY AND SOCCER TOURNAMENT

Saturday, September 20, 2014  
Location: GLOBAL Football  
Park & Sporthotel



**PATRON PROFILE**

# EY Hungary Ltd.

**COMPANY NAME:** EY

**FIELD OF BUSINESS:** Professional Services

**WHEN ESTABLISHED IN HUNGARY:** 1989

**WORKFORCE:** 555 professionals in Hungary, 190,000 worldwide

**BIOGRAPHICAL DETAILS OF INTERVIEWEE:** István Havas, 54, Country Managing Partner

**LENGTH OF TIME WITH COMPANY:** 12 years, serving as Country Managing Partner since 2006

**LENGTH OF TIME THE COMPANY HAS BEEN AN AMCHAM MEMBER:** 25 years

**LENGTH OF TIME AN AMCHAM PATRON:** 2005

## HOW WOULD YOU DESCRIBE THE CURRENT BUSINESS ENVIRONMENT IN HUNGARY?

I think it is a very vibrant and exciting environment, many things are happening now. We are in the middle of significant shifts in the structure of several industries, whether it is due to post crisis consolidation strategies, de-risking, government intervention, or actions by regulators on a national or supranational level. We also experience a change in the taxation philosophy of the government. Also, recently we see many companies becoming more optimistic about their growth potential but most of them are still very much concerned about their cost base. This is a favorable environment for EY, because we have many services addressing these business matters.

## HOW HAS DOING BUSINESS IN HUNGARY CHANGED SINCE THE COMPANY WAS SET UP HERE?

EY (Ernst & Young) was among the first professional services firms to start business in Hungary at the time of the meltdown of the communist regime in 1989. We have celebrated our 25th year anniversary this year. I also started my professional career at that time, being one of the first local employees of the large – then Big 6 – accounting firms. Over this period business in Hungary has changed dramatically in just about every aspect of life, moving from a state planned economy to a market based economy, including the social and legal framework around business. But even on a micro level, when I think back

of the sophistication of business practices, or the role of technology in business when we started, it seems now to me as if it was in the stone age, even though it was just 25 years ago. People in business have changed a lot, too, in their skills, their priorities and attitude. I experienced a complete economic cycle with prosperity and crisis, including that of my own profession, significant changes in the philosophy of the role of state in the economy, regulation, etc. In different times and places this would be enough for several generations. I am grateful that I have had the luck to work in this exciting time and environment.

## WHAT ARE THE GREATEST CHALLENGES IN DOING BUSINESS IN HUNGARY RIGHT NOW?

It is hard to generalize. The greatest challenge may be different for each sector and may be different for each company, not mentioning that many companies operating here are subject to significant non-Hungarian specific challenges. In Hungary the post crisis disillusion, the search for the right social-economic model creates a rapidly changing economic and legal environment for business that represents an additional challenge. But it also creates opportunities.

## WHAT ONE THING WOULD YOU LIKE TO SEE CHANGED ABOVE ALL OTHERS TO IMPROVE THE BUSINESS ENVIRONMENT?

I think we in many industries, particularly in the services industries, feel the negative impact



of short-term thinking and value erosion in benefit of lower costs. This is partially the result of competition and post crisis modus operandi. However, on the long-term it is not going to be sustainable.

## WHY IS IT IMPORTANT TO BELONG TO AN ORGANIZATION SUCH AS AMCHAM?

AmCham is a very good forum to meet members of the business community, talk to them, to get to understand the environment better, or even do business with them. In my own business we have of course other platforms as well, to talk to a wide range of business or political decision makers, but for many companies an organization such as AmCham is an exceptional opportunity for these things. In addition, AmCham does play a role in commenting, shaping or at least learning about planned legislative actions. Members have a unique chance to participate in this.

## WHAT ARE THE ADDITIONAL BENEFITS OF BEING A PATRON?

To be a Patron gives more access to the benefits of membership. But on top of that, I think it indicates a higher commitment to AmCham's efforts in enhancing business for its members and to improve the competitiveness of the economy of Hungary. Competitiveness of our country is important for us, vital for the next generations behind us, and EY contributes to this goal. Our mission is to build a better working world through our work, and being a Patron member of AmCham is part of this ambition.



## AWARD

# Bringing Boston to Budapest

*The winner of the 2014 Dr. Iván Völgyes Award – established in 2005 to recognize those individuals who have played an outstanding and exemplary role in developing Hungarian-American business relations – was the Hungarian Consul General for New England, Gábor Garai.*

“As you can probably tell from my accent, I am from New England. But I was born in Hungary. I left when I was 13, and soon after moved to Boston, and have lived there ever since,” Garai told the annual assembly of AmCham on December 3 on accepting the award. “I believe there is a lot of commonality between Boston and Budapest. I was even looking on my iPhone at the pictures of your ice storm in the last few days and the ice storm we had in Boston last spring; it looked pretty much like the same city to me!”

Prior to receiving the award, Garai had met with young Hungarian entrepreneurs at an AmCham workshop, where he explained the challenges and opportunities the U.S. market has to offer. He gave an overview of the U.S. legal system, explaining his recommendations for structures for foreign companies with a U.S. presence. He also talked about options for raising capital, underlining the importance of making sure that any potential venture capital partner has experience – and a network – in the company’s specific industry area.

It was a typical example of Garai’s commitment to and enthusiastic engagement with Hungary. As one of the award nominees for Garai wrote: “He does a lot to help Hungarian firms extend their business in North America, as a lawyer and many times also as an investor in Hungarian startups.”

Another talked of the breadth and depth of his involvement. “Ever since he assisted LogMeIn with its first U.S. venture financing, he has been deeply involved in encouraging U.S. investments in Hungary and bringing Hungarian companies into the U.S. market.



His activities include structuring and establishing U.S. entities for Hungarian companies and introducing Hungarian businesses to a wide variety of U.S. resources.” Garai’s Hungarian clients include Graphisoft, Maven Seven, Mediso, Remotaid, and the Technology Transfer Office of Semmelweis University, among others.

For his own part, Garai says he sees echoes of New England in Hungary beyond just their weather. “I am convinced that the ecosystem, the entrepreneurial energy and the new company creation going on in Boston is something that could easily happen here,” he told the annual meeting. “Both cities have the same focus on education; both have great numbers of young people who are ambitious and very creative; both cities have a very committed business community, as AmCham here illustrates. My job is to try to further these connections and ecosystems, and try to create more of it here in Budapest. I am very optimistic about what is happening in Hungary, the businesses being created here moving to the rest of the world, including the United States. I promise to do everything I can, for as long as I can, to further this very important objective.”

The annual Dr. Iván Völgyes Award is named for the man credited by many as

being the father of modern lobbying in Hungary; born in Hungary, and a Holocaust survivor, he moved to the United States in 1956. After the fall of the iron curtain, he became instrumental in bringing numerous U.S.-based businesses to Hungary including General Electric, the Gallup Organization and Reader’s Digest. He lost his life in an airplane crash in June 2001.

Eszter Szabo, GE’s corporate communications and public affairs regional leader for CEE and, until December, an AmCham board member, knew him – she recalls meeting him in 1996 on her first day at GE. “He was the highly influential national advisor of GE in Hungary, and I was the freshly appointed communications leader, Central Europe at GE Lighting [...] After that I worked with Völgyes and others closely, making GE a multi-business investor. Five years later I received a phone call from the Office of the Minister of Interior to tell me that Iván, who had left GE by that time, was involved in a plane crash. [...] He was an intercultural interpreter (as he usually referred to himself), the designer and an implementer of the common growth vision of global GE and Hungary, a truly high-impact advisor of the company.”

Gábor Garai is a partner and business lawyer at Foley & Lardner LLP, a 1,000 lawyer international firm, where he is chair of the firm’s private equity and venture capital practice, and co-chair of the life sciences team. Founder of the Hungarian-American Chamber of Commerce of New England, he has received the Hungarian Civilian Cross, the highest recognition to non-residents awarded by the Hungarian president. In 2013, he was appointed honorary commercial attaché for Hungary. He is a graduate of Harvard College and Harvard Law School.



## CEO'S NOTE

# A Time for Evaluation

Dear Members,

By the time you read my note we will have celebrated Christmas and started 2015! Nevertheless, as I am writing these lines we are still in preparation for the Festive Season, the one I like the most. I very much enjoy the fact that Christmas falls on the darkest days at yearend, which invites us to make an internal journey. Each year I tend to think through all the important things that happened during the past 12 months, and this December is no different.

As a trade director I used to have extremely busy Decembers, but 2013 was different. I enjoyed a break after 22 years of dedicated work and I had the luxury to prepare for Christmas, as I never had time before. I made personalized gifts for my family and friends and could meet people without being in a rush.

The week before Christmas I was arriving for lunch in my favorite restaurant with a friend, when I got a call from Judit, who was searching for the new AmCham CEO and asked if I would be interested in running for the position. At that moment I couldn't yet foresee all that 2014 would offer me, but now, making my traditional yearend evaluation, I can say it was one of my best years.

Joining AmCham in the Anniversary year was a special opportunity for me. It

was also a time for evaluation – not only one, but 25 years – full of successes, great memories and most importantly personal dedication. AmCham is a well-known brand name and I take pride in becoming part of the organization, part of the team. But then again, it is a huge responsibility. Based on the legacy of the past and the trust of the current members we need to serve the purpose AmCham was founded for and which still prevails. This desire made us revisit the way we work and define how we can best join forces to live up to the expectations built on our rich heritage and determined by current needs.

Soon we will share with you our 2015 policy agenda, determining the areas where we wish to make AmCham's voice heard while making tangible impact. Our entire annual plan will focus on supporting our agreed objectives.

I am personally very grateful to Willy Benkő and the 'old' board for giving me their trust and support from the first moment on. It is good to know that although Willy and other members are leaving the board, AmCham can always count on their continued support. At the same time, we also welcome Ferenc Pongrácz as new president together with SVP Andrea Jádi Németh and five new board members as a result of serious competition; clear evidence of engaged members, and the great momentum AmCham has!

I wish you all a successful and great 2015!



*The AmCham Board and Staff members would like to express their appreciation to Erika Bosnyák, who has retired as of mid-December. Erika worked for AmCham for close to 25 years. Besides being the Financial Manager she was the Secretary of the AmCham Foundation and in both capacities worked very hard and conscientiously. Erika, enjoy this new chapter in your life!*

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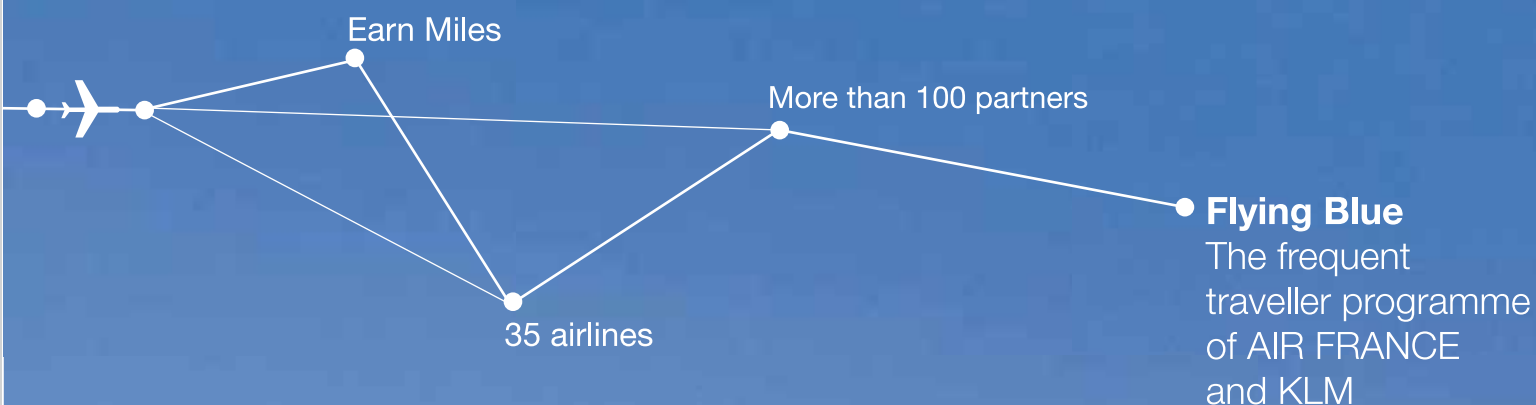


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