

Hungary

Political situation

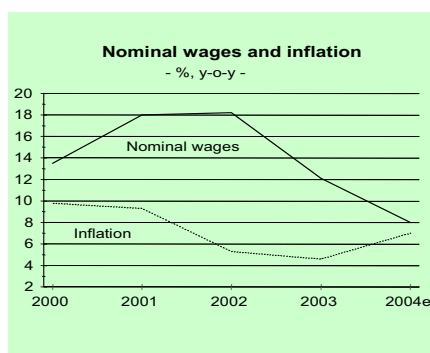
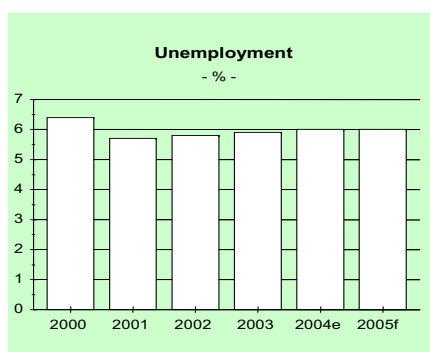
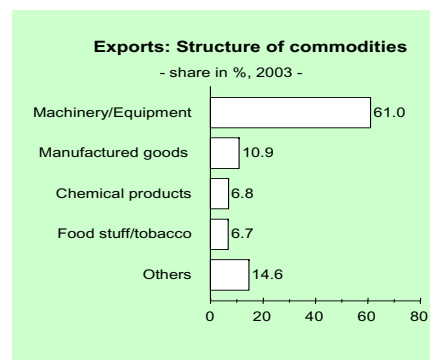
- ▶ Following resignation of prime minister Medgyessy, the socialists and liberals intend to maintain their coalition.
- ▶ EU member since 2004.

Domestic economy

- ▶ Robust economy; driven mainly by exports, but thanks to a better business climate investment also providing strong boost to growth. Despite weaker private consumption we expect growth to pick up to 4 % in 2004.
- ▶ The adjustment of administered prices, the increase in indirect taxes and high oil prices have triggered a surge in inflation, pushing it well above the previous year's level.
- ▶ Hungary intends to exchange its national currency for the euro by the end of this decade. The government therefore has little choice but to stick to its consolidation path. Even with the austerity measures introduced so far, the budget deficit is set to exceed 5 % in 2004.
- ▶ Privatization is practically complete.

External sector

- ▶ Positive export performance, helped by an improved EU economy. Imports are expanding more quickly than exports due to higher demand for capital goods so that we expect an increasing current account deficit in 2004. Relative to GDP the shortfall will, but at almost 8 % of GDP still high. Foreign direct investment covers less than 50 % of the deficit.
- ▶ Exchange rate: forint fluctuates 15 % above or below the central rate against its anchor currency, the euro.
- ▶ Foreign debt in relation to exports of goods and services moderate. But import cover stands at only 2 months.



HUNGARY	2001	2002	2003	2004e	2005f
Population (m)	10.2	10.2	10.2	10.2	10.2
GDP (US\$ bn)	51.8	66.1	81.6	99.2	108.8
GDP per capita (US\$)	5,081	6,476	8,001	9,729	10,663
GDP change in % (real)	3.8	3.3	2.9	4.0	4.1
Inflation in % (annual average)	9.3	5.3	4.6	7.0	4.7
Budget balance in % of GDP	-4.4	-9.6	-6.1	-5.5	-4.5
Merchandise exports (US\$ bn)	31.0	34.7	43.1	51.4	59.2
Merchandise imports (US\$ bn)	33.3	36.8	46.5	55.5	63.1
Current account balance (US\$ bn)	-2.9	-4.4	-7.4	-7.7	-7.4
Current account balance in % of GDP	-5.6	-6.7	-9.1	-7.8	-6.8
Foreign direct investment (US\$ bn)	2.1	2.5	3.4	3.8	4.2
Foreign direct investment in % of GDP	4.1	3.8	4.2	3.8	3.9
Gross foreign debt (US\$ bn)	33.0	40.3	55.6	60.2	65.9
Foreign debt in % of exports *	85	94	106	97	92
Foreign exchange reserves (US\$ bn)	10.7	10.4	12.7	13.2	14.0
Import cover (months) *	3.0	2.6	2.5	2.2	2.1
Exchange rate year-end (Forint per EUR)	256.6	242.9	253.3	252.3	255.0
Exchange rate annual average (Forint per EUR)	286.5	255.7	224.2	205.1	204.0
* goods, services and income	e = estimate; f = forecast				

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Basic conditions for foreign investors

General legal system:

Fulfillment of standardized EU legislation since May 1, 2004. Some transition periods are still applicable, e.g. in the agricultural sector, in certification of products, in the transport sector and in the free movement of labor. Tax and welfare legislation need to be reformed. Partly hesitant implementation of the new legal norms.

Possible company structures/minimum capital requirement:

Joint stock company (Hungarian: Rt.)/20m forint, open or closed, private limited company (Hungarian: Kft.)/3m forint, private limited company & limited commercial partnership, general commercial partnership (Hungarian: Kkt.), limited commercial partnership (Hungarian: Bt.), joint undertaking (Hungarian: Kv.), one-man private limited company or one-man joint stock company possible. For foreign investors also branch office.

Permissible holding:

Up to 100 %. Foreign investors may participate in privatization through the state-owned privatization and state holding company APV (internet address: www.apvrt.hu) by direct purchase, tender and auction.

Approval/establishment procedures:

Investments are allowed in nearly all sectors. Commercial register entry.

Capital contribution:

Foreign investors transfer the subscribed capital in forint or in other convertible currency. Real capital is exempt from VAT if not sold within 3 years.

Land/real estate acquisition:

For foreign individuals and legal persons generally no restrictions on acquisition of real estate with exception of agricultural land and forest areas. As transition agreement until 2011 EU citizens are allowed to acquire agricultural real estate. Conditions: Constant domicile in Hungary for 3 years with uninterrupted activity within the agricultural sector. Acquisition of real estate requires permission of the Comitates (districts, cantons, federal states).

Qualification of labor force:

Well-trained and qualified workforce, especially engineers, technicians and in the IT sector. Low linguistic barriers. Official languages: Hungarian, German, English.

Labor costs (per hour worked, national average):

4.48 euro (industry and service sector, estimation, 2003). Compared with EU: 19.65 euro, Germany: 25.98 euro.

Wage level/personnel costs:

Statutory monthly minimum wage: 53,000 forint.

Average monthly gross wage: 141,897 forint.

Average monthly net wage: 91,295 forint

Considerable fluctuations between big cities, rural areas and the various branches of industry. Employees of foreign companies expect to earn more.

Average monthly gross wage (compared with Germany/EU, 2003):

560 euro (Germany: 2,460 euro, EU: 2,396 euro).

Social security contributions:

Employer's contribution: 33.5 % of gross wage + 3,450 forint per month health addition

(18 % pension scheme, 11 % health insurance, 3 % unemployment insurance, 1.5 % education and further training levy).

Employee's contribution: 12.5 % of gross wages

(8 % pension scheme, 3 % health insurance, 1.5 % unemployment insurance).

Legal forms to protect foreign investments:

Foreign investment act (January 1, 1998).

Agreement with European Union:

Association agreement since February 1, 1994. EU member since May 1, 2004.

Profit and capital repatriation:

Free for foreign investors after taxes.

Taxation (without application of bilateral agreements):

Income tax:	18 %, 26 % as well as 38 % (progressive tariff).
Tax on dividends:	25 % (on distributions of profit)
Corporation tax:	16 %.
VAT:	25 % (standard rate), 15 % e.g. on food, district heating and gas, 5 % on medicines and school requisites.
Trade tax:	maximum 2 % of the generated added value, fixed by the municipality.

Customs tariff:

Accession to customs tariffs of the European Union as of May 1, 2004, i.e. free traffic of goods between the old and new European Union member states; customs declarations are not required. For supplies from third countries uniform customs tariffs of the European Union are applicable. WTO member since January 1995.

Special economic zones:

The about 140 free trade zones/areas have almost all been wound down since EU accession. There are about 75 industry parks. Budapest and surroundings (10 parks) as well as central Hungary are the hubs, to which 13 logistic parks are going to be connected.

Tax concessions for foreign investors/EU grants:

According to the EU competition law tax concessions to large foreign investors and individual benefits of the Comitates are no longer possible. Tax rebates are available on real capital investments of minimum 3 billion forint, on investments of minimum 1 billion forint in structurally weak areas and on projects of minimum 100 million forint for environment protection and telecommunications projects. The various government subsidies differ regionally and are dependent on the size of the enterprise and the industry. For the period 2004-2006 we estimate, after deduction of contribution to the EU budget, 1.1 % per year of GDP is expected from the EU agricultural fund as well as the EU structural and cohesion funds (infrastructure, environment).

Foreign exchange regulations:

Since October 1, 2001 the exchange rate of the Hungarian forint has been fluctuating in a range of +/- 15 % around the central rate of the euro. The Hungarian currency is fully convertible. Accession to the European Exchange Rate Mechanism II (ERM II) at the earliest 2008. Introduction of the euro at the earliest 2010.

Inflow of foreign direct investment (gross, 2003): 3,439m euro

Main countries of origin:

Spain (28.7 %), Austria (27.8 %), Netherlands (11.1 %), Germany (7.3 %), USA (4.3 %).

Main sectors:

Production industry (48.8 %), of which mechanical engineering (59 %) and electric and optical instruments (39.6 %); furthermore financial sector (36.7 %), real estate (9.9 %) and transport and communication (7.9 %).

Forthcoming privatizations:

In the sectors transport (transport of goods, shipping, aviation), telecommunication (Antenna Hungaria Rt.) and energy (oil and gas). Otherwise privatizations are complete. Visit internet address: www.apvrt.hu for current privatization offers. Progressing liberalization in telecommunication and energy sectors.

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