

Hungary

An overview on economy and business environment



Hungary is located in Central Europe. It is a landlocked country bordering with Slovakia, Ukraine, Romania, Serbia, Croatia, Slovenia and Austria.

After the fall of communism in 1990, thanks to a series of economic reforms, Hungary changed from a centrally planned to a market-driven economy; adjustment to the world economy had become evident by the turn of the 21st century. Hungary's liberal foreign investment regime attracted more than half of the entire foreign direct investment in central and eastern Europe in the first half of the 1990s. Modernization of telecommunications also began, and new industries (e.g., automobile manufacturing) emerged. Economic policies instituted during that decade helped Hungary to join the European Union in 2004 (but the country has not yet joined the euro-zone).

By the early 21st century, nearly one million small-sized, mostly family-owned companies had been established and State ownership of businesses had declined to roughly one-fifth. Another important contributor to economic growth was a flourishing tourist industry.



In recent years the government has become more again involved in managing the economy. Budapest has implemented many economic policies to boost household consumption and has relied on EU-funded development projects to generate growth.

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Real GDP growth has been robust in the past few years due to increased EU funding, higher EU demand for Hungarian exports and a rebound in domestic household consumption.

Systemic economic challenges include pervasive corruption, labor shortages driven by demographic declines and migration, widespread poverty in rural areas, vulnerabilities to changes in demand for exports, and a heavy reliance on Russian energy imports. In addition to this, Hungarian economy has been severely impacted by the covid 19 pandemic like all the other European countries.

Current forecasts say that after a contraction of 5.7% in 2020, GDP is projected to rebound by about 3% per annum on average in the next two years. Forecasts also say that as restrictions are lifted, an adequate number of peoples is vaccinated, and global trade rincreases, domestic and external demand will begin to recover from mid-2021 onwards. The labour market will improve from mid-2021 as well, while inflation will continue to be elevated. Fiscal policy will remain supportive as social security contributions are further reduced.

However, Hungary's recovery will also depend on the German economy, which attracts the largest share of Hungarian exports, as well as the automotive industry given the country's dependence on the sector.

The structure of the Hungarian economy is mostly compatible with other countries at the same level of development. Service sector accounts for slightly less than two-thirds of the GDP. Within the service sector, the private services (trade, tourism, finance and other economic services) are highly developed.



Services, especially economic services, represent a sizeable portion of the country's export. The transportation sector (with some companies owned by the state and others by private corporations) offers optimum

conditions for transit traffic due to Hungary's favorable geographical location. The state-run service sectors (health, education, public administration) failed to keep pace with the other service sectors and their fundamental transformation is therefore high on the political agenda.

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The agricultural sector, which used to be the dominant force in the country's economy for many years, now represents 3.5% of GDP and employs 4.6% of the working population (World Bank, 2020). Cereals, fruits, maize, vegetables and wine are the main crops.

Industry accounts for 26% of the country's GDP and employs 32.8% of the working population. Hungarian industry is very open to foreign investment, with manufacturing almost consistently ranking top receiver of foreign direct investment. The automotive and electronics sectors are the two main industrial sectors.



The automotive sector is one of Hungary's core industries and generates almost 21% of total exports. Car and spare parts industry account for the highest share of exports and imports. Medicine and data processing machines are also among Hungary's main exports whereas electronic circuits and petroleum products are among main imports.

The electronics industry is one of the largest industrial sectors in Hungary, accounting for 22% of total Hungarian manufacturing production. The country is the largest electronics producer in the CEE region, providing 26% of total regional production.

Hungary's pharmaceutical industry with its century-long tradition is one of the most efficient and successful sectors of the Hungarian economy. With the most developed pharmaceutical and biotechnology sectors in Central and Eastern Europe, Hungary provides an ideal base for life science companies planning further expansion in this region, or towards the Balkan states, and the more distant markets in Eastern Europe and Asia.

The ICT sector accounts for 10% of total Hungarian GDP and it employs more than 100,000 people. Covering telecommunications, IT outsourcing, IT services, and software and hardware production, the Hungarian ICT market has grown fast in the last couple of years and leads the region in computer assembly and communications equipment manufacturing. ICT related R&D drives more than a quarter of total R&D expenditure. Hungary has become a regional incubator for software development, including process control software, game programs and geographical information technology, focusing on navigation systems.

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Also the food processing industry still remains one of the most important sub-sectors of the economy. Most food industry companies (more than 85%) are micro-enterprises that employ fewer than 10 people. The share of foreign capital in the industry is 47%. The processing of meat, coffee and tea, and the manufacturing of soft drinks are the sectors with the highest share of FDI in the Hungarian food industry.

Multinational companies involved in vegetable oil processing, and confectionary and snacks, for example, dominate the sector. There are about 200 large food producers altogether, two-thirds of which are owned by foreign investors. Large producers primarily use Hungarian raw materials.

The European Union is by far the largest economic partner of Hungary, with Germany being the main trading partner both for imports and exports (27.7% of exports, 25.3% of imports). Slovakia is the second top destination for Hungarian goods (5.2%), followed by Italy, Romania, Austria France, Czechia, Poland and Netherlands.

Austria is the second supplier of goods in Hungary (6.1%), followed by China, Poland, Netherlands, Italy, Slovakia and Czechia. Hungary's trade balance, which was traditionally in deficit, started posting surpluses more recently owing in particular to the good health of the German economy.



The top exports of Hungary are Cars, Vehicle Parts, Spark-Ignition Engines, Packaged Medicaments, Video Displays. The top imports of Hungary are Vehicle Parts, Cars, Packaged Medicaments, Integrated Circuits and Crude Petroleum.

Especially in this period it is important to assess business partners and get in-depth information on any potential and actual partner, but only local providers have the specific knowledge and tools to provide the most reliable and accurate information.

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- Directors and company structure: board of directors, shareholders and related companies
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After purchasing a credit report, it is also possible to enable the Full Monitoring service in order to be informed of any change regarding the company for 12 months. SkyMinder also offers Slim Report and KYC report on Hungary. The Slim Reports provide a quick and concise overview on the credit situation of a company, while the KYC reports give an overview on the shareholders.

Thanks to all the range of the SkyMinder reports on Hungary and to the expertise of local providers, it is possible to establish safe and profitable business relationship with any Hungarian company.

Sources: <https://www.oecd.org/>; <https://www.nordeatrade.com/>; <https://www.britannica.com/>;
<http://eugo.gov.hu/>; <https://www.cushmanwakefield.com/>; <https://import-export.societegenerale.fr/>; <http://eugo.gov.hu/>; <https://www.cia.gov/>