

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

HUNGARY



HUNGARY: LOCATION ATTRACTIVENESS IS UNBROKEN

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“STRATEGIC INDUSTRIES ARE GAINING IMPORTANCE”

The Fidesz party won the parliamentary elections with a large majority. What impact does this have on German companies operating in Hungary?

We assume that the course of Hungarian economic policy will be consistently pursued against the background of the clear election result.

A closer look reveals two trends. On the one hand, the Hungarian government will continue to push the change to an innovation location and provide political support. The Hungarian cabinet is likely to intensify its - already successful - efforts in this regard. On the other hand, “strategic industries” will play an increasingly important role in Hungary.

The government wants to increase its influence there and create national champions. Companies in the construction, infrastructure, circular economy, education, energy, banking and retail sectors are concerned about this development. They see investment security at risk in some cases.

A large number of German companies should continue to benefit from the favourable general conditions in Hungary. For a smaller part, it will become more difficult in the coming years.

Where do you see the advantages of Hungary compared to other Central and Eastern European production locations?

The regional differences, for example within the Visegrád Group, are generally becoming smaller. The initial situation can be described with the three “Cs” – close, cost-efficient and competent.

In our opinion, Hungary’s strength lies in the professional cooperation between companies and administration. The authorities at all levels are interested in constructive success, and their work is rated as fast, reliable and competent overall. For example, the Hungarian investment promotion agency HIPA (Hungarian Investment Promotion Agency) is one of the best investment promotion agencies in Central and Eastern Europe.

What challenges do foreign companies face on the Hungarian market?

The political tensions between Hungary and the European Union and Germany are causing uncertainty among companies. This is fuelled by fears that Hungarian companies could be increasingly favoured, whether or not these fears are justified.

There are numerous unanswered questions with a view to further economic development and investment security in strategic sectors. Will Hungary lose EU funding as



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a result of the rule of law mechanism? If so, how and to what extent? Will Hungary receive funds from the European economic stimulus package "NextGenerationEU" for important innovation projects?

These are key questions for many investors. In the future, companies will have to pay more attention to whether they belong to the subsidized or strategic sectors in Hungary.

What could the Hungarian government do to further improve the investment climate?

We want the Hungarian government to treat all sectors, all companies and all investments equally and fairly.

What are the most attractive sectors in Hungary? What prospects do you see for German companies?

Hungary is attractive for all companies that are promoted by economic policy. Currently, these are mainly companies that produce, export and are located high up in the value chain. The government will continue to roll out the "red carpet" for these investors in the future. The differential treatment of funded and strategic sectors is likely to increase further.

For many foreign companies, especially from strategic sectors, Hungary is likely to lose some of its attractiveness, since the government is focusing more on national champions here. Therefore, the perspectives are different.

"TECHNICAL MANAGERS ARE IN DEMAND"

What are the top trends on the Hungarian labor market?

Employers should definitely take note of these two trends: rising salaries and the increasing shortage of labor supply in Hungary. It goes without saying, that one prompts the other.

While the pandemic did have an effect on economic growth and employment, at this point, the labor market is almost back to its pre-corona status. It should also be noted that government support programmes played a huge role in curbing unemployment rates during the virus outbreak. As a result, as of March 2021, unemployment was at 4%. A year later, in March 2022, it was 3.6%.

All surveys on the labor market in Hungary make it clear that the demand for qualified workers is greater than the supply. Accordingly, between 2013 and 2020, wages and salaries have increased in double digits every year.



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Lack of skilled workers is likely to remain an issue for quite some time. As the demand for international goods grows, and "nearshoring" becomes the go-to strategy in terms of manufacturing, Hungary has become a very lucrative option for many companies looking to expand and/or relocate production. Therefore, we predict that the recruitment sector will continue to favour the employees in 2022. The high demand will probably drive up remuneration in the double digits this year. One of the reasons for such an increase is the inflation, which the Hungarian central bank forecasts to stand at 9.8% in 2022.

Companies that want to recruit in Hungary also face international competition. The Austrian Chamber of Commerce estimates that over 380,000 Hungarians live or work abroad - almost a third of them in the neighboring Alpine republic.

The opportunity to work in other EU countries, where the salaries are higher, is another factor that pushes up salary levels in Hungary.

Given the shortage of employees, how do you find suitable candidates for your clients' vacancies?

Talent acquisition is definitely a challenge since the market is indeed highly competitive. This is particularly so when it comes to production-related executives, including in the IT sector.

Because Hungary is a very attractive location for production activities, plant managers, production managers and other technical managers are in high demand. Sales managers, especially those with experience in selling technical products, are also often sought after.

Job advertisements currently have little chance of success in Hungary. We work exclusively on the direct search route. In other words, we head hunt directly, by identifying the top candidates in the sectors that our clients specialise in. This procedure guarantees that those candidates who are interested and best qualified are available to fill a vacancy.

The direct search entails a considerable amount of research work – especially, when a position is planned at a location outside the centers. For positions available outside the city centers, candidates have to be additionally incentivised to make the decision to take up the role.

When searching, our team can draw on an extensive database of Hungarian managers with an international profile, and can therefore, quickly approach candidates in most cases. However, such a database can by no means replace thorough research in the management sector, every appointment has its specifics, so that the market must be analyzed anew in each case.

Executive recruitment in Hungary is managed by our Eastern Europe research team, which also has colleagues in Budapest. This way, we ensure the depth of research and local expertise that is indispensable in the competitive Hungarian market.

What do you recommend to companies that want to invest in Hungary?

When choosing a location, not only the statistical wage level in the respective country should be taken into account, but also the actual availability of local workers. The statistics can only provide initial indications, reliable data can then be provided by a personnel consultancy or by exchanging information with companies already active at the location.

In view of the challenges of external recruitment, companies should conduct long-term personnel planning and, if possible, make provisions for the case of important employees leaving. Companies that are new to Hungary or that need to make a change in their existing management should give high priority to the careful recruitment and evaluation of new employees.

As in all countries, filling management positions with the right candidates is the most important success factor for the company's success. From a compliance point of view, Hungary can sometimes be a challenging market. The integrity of the local management team is therefore of the utmost importance, and this point, should be examined with due diligence during recruitment.

"PAPER HAS BEEN COMPLETELY ABOLISHED"

How competitive is Hungary in terms of the legal and tax system compared to other Eastern European countries?

In the last ten to fifteen years, Hungary has developed into a very attractive investment location for foreign investors in direct competition with the neighbouring countries.

The corporate tax rate, which has been significantly reduced, is definitely one of the perks. At 9%, Hungary has the lowest corporate tax rate not only in the region but among all OECD countries.

However, Hungary does not have to hide when it comes to corporate taxes (which include corporate income tax, as well as dividend tax). Among the CEE countries, Hungary ranks right after the Baltic countries. At the OECD level, Hungary ranks 6th.

In the area of cross-border taxation, Hungary is also at the forefront, ranking fourth among the OECD countries, and first within the CEE region. This is partly due to the fact that Hungary does not levy any withholding tax on the distribution of interest, license fees or dividends abroad in numerous constellations. In addition, Hungary has concluded bilateral agreements with numerous countries, which simplifies the taxation of cross-border matters.



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On the legal level, it should be mentioned that EU-based companies are privileged in Hungary and enjoy a variety of facilities.

When it comes to the pace of start-ups, Hungary is also a step ahead. Companies can be founded within 24 hours, if time is of the essence. This not only includes the founding act itself, but also the entry in the commercial register, with the result that operational activities can begin the next day (immediately after the foundation).

What legal innovations have there been recently or can be expected in the short term?

There were numerous innovations in the area of company law, which tended to result in an increase in the freedom of design at the shareholder level. As an example, it should be mentioned that a shareholder (both natural and legal persons) can own several legally separate shares in an LLC (Kft.), which can have different fates. If the shareholder does not fulfil his capital provision obligations in connection with just one share, this also affects his other shares, which in the worst case can lead to his exclusion from the company.

The danger of this has tended to decrease, especially since the capital provision regulations have been relaxed. When founding a company, the shareholder can opt for a later payment of the contribution. The dividends accruing to him can be offset against the contribution. A distribution to him can only be made if the contribution has been made in full. As a rule, he has two years to do this.

The proportion of public tenders in which only one bidder took part was quite high in Hungary by European comparison.

On the advice of the European Commission, the Hungarian legislature has become active and has improved the competitive climate in public tenders with legislative amendments.

How does Hungary fare in terms of the degree of bureaucracy, also in comparison to other Eastern European countries?

All official procedures have been modernized and switched to electronic processing. Correspondence with the administration, the courts and the tax offices are done online. Paper was completely abolished. The systems are stable, the procedures have been accelerated.

Not least because of his previous training as a programmer and mathematician, the recently incumbent chairman of the financial administration has focused on the further digitization of the financial system. Hungary is already far ahead of its neighbouring countries in this area. There is an online billing system that makes it much easier to convert billing to electronic processing. The process is quick, very effective and easy to use without compromising on security.

The so-called EKÁER system, which is intended to put a stop to sales tax fraud, has been further simplified. Since the beginning of January 2021, companies that have not placed any goods classified as risky on the market have been exempted from the data delivery obligation.

Why invest in Hungary?

Foreign companies are attracted by investment subsidies, in the form of tax breaks or tax deferrals, as well as grants. The amount depends essentially on the type of investment, the region in which the company is located and the number of jobs created.

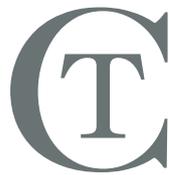
Subsidies of 20 to 50 percent of the invested capital are realistic. Individual agreements are made with companies classified as systemically important (VIP companies), which provide for benefits that go beyond the standard subsidy.

The Hungarian workforce is well educated, the wage level is still attractively low compared to Western Europe, and labour law is very employee-friendly. The employer's share of social security contributions has witnessed further reductions. The standard rate is 13%.

Local business tax was halved for small and medium-sized businesses during the pandemic. This tax rate was also retained for 2022.

Investments in the expansion of existing companies are also encouraged with tax breaks.

Although Hungary is considered a small country, compared to Poland and Romania, it has the longest motorway network in CEE.



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