

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

HUNGARY



## HUNGARY - ECONOMIC GROWTH FUELS WAR FOR TALENT



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## “AUSTRIAN COMPANIES ARE AFFECTED BY LABOUR SHORTAGE”

### How is the Austrian economy represented in Hungary today?

Austrian companies were the first to invest in Hungary after the fall of the Iron Curtain. Austria has also been one of the most important investment partners in Hungary since then, currently ranking third behind Germany and the Netherlands.

According to the Austrian National Bank (ÖNB), the total stock of direct investment amounted to 5.7 billion euros in 2018, which represents a slight decline compared to 2017 (6.3 billion euros). A look behind the figures shows that Austria has built up a strong presence in Hungary: Austria has the second largest number of branches in Hungary, just behind Germany and well ahead of the US, and Austrian companies are the third largest foreign employer (behind Germany and USA), having created over 69.000 jobs.

In comparison to the 5.7 billion euros of Austrian investments in Hungary, there are hardly any Hungarian investments in Austria. In 2018 the stock of Hungarian investment in Austria amounted to only 164 million euros.

Based on current trade figures for the first half of 2019, Hungary ranks sixth among Austria's most important trading partners. Mutual trade relations have continued to grow over recent years, with total trade at 9.3 billion euros in 2018 setting a new record. Austria has a significant trade surplus of more than 922 million euros.

More than half of the trade comes from mechanical engineering and processed goods, followed by food and live animals. Hungary is also the sixth most important partner for Austria in terms of services (1st quarter of 2019), in the EU behind Germany, Holland, Great Britain and Italy in 4th place and in the CEE region in 1st place.

Incidentally, for Hungary, Austria is the second most important trading partner behind Germany.

### With which questions do the companies turn to the Foreign Trade Center Budapest, what are their issues?

For the Austrian companies operating in Hungary, the special taxes introduced in certain sectors were certainly a major financial burden. The banking and food retail sectors were hit hardest. Meanwhile, these burdens have been reduced again.

Currently, not only the Austrian branches in Hungary are affected by a labour shortage. Many companies could accept more orders if more workers were available. A remedy could be the introduction of the dual training according to the German or Austrian mod-



**Jürgen Schreder**

Austrian Business Delegate at the Foreign Trade Center in Budapest, which is part of the internationalization and innovation agency AUSSENWIRTSCHAFT AUSTRIA of the Austrian Economic Chamber.

els, where the focus is on the practical training of apprentices and not on theory. Austria already supports the Hungarian efforts with concrete cooperation projects.

As regards the Austrian companies delivering goods or services from Austria to Hungary, there are currently no significant problems. However, there are many procedural questions, especially with regards to taxation. The EKAER goods traffic control system, which was introduced quite some time ago, has brought additional costs, but has since been widely accepted by the market players. And the Hungarian state is happy about more tax revenue.

Companies need to consider some regulation when posting Austrian employees to Hungary. Misunderstandings and fines can be avoided if companies inform themselves in good time about certain formal requirements.

### **What opportunities does the Hungarian market offer today, for which industries is it interesting?**

The sustained high economic growth of approx. 5 percent is primarily due to EU subsidies and the resulting public procurement, especially in the construction and infrastructure sectors.

The strong industrial base and the domestic purchasing power also contribute positively. The proverbial engine of Hungarian industry is the strong automotive industry and its supplier sectors, which account for almost 30 percent of industrial value added in Hungary and 20 percent of total Hungarian exports.

Particularly good opportunities for suppliers exist in the industrial sector, especially in mechanical engineering products, vehicle components and machinery. The same is true in the product groups food, mineral oil and fuels as well as chemicals.

### **How could the Hungarian government positively affect the investment conditions in the country?**

For the third time, AUSSENWIRTSCHAFT AUSTRIA conducted an international survey in Austria's 24 most important export countries. In Hungary, it has been shown that the economic climate improved slightly last year, or remained stable, according to the surveyed Austrian companies.

83 percent of the respondents expect stable or improving economic developments in the coming years. The predictability of economic policies and issues related to legal certainty and bureaucracy have been identified as impediments by public institutions.

In the market, the majority of companies face challenges in terms of missing skilled labour and the productivity and quality of labour.

## “BUREAUCRACY SHOWS CLEAR SIGNS OF IMPROVEMENT”

**To what extent is legal certainty given to companies in Hungary? On what foundations does Hungarian law rest?**

Hungary has been a member of the European Union since 2004. There is a separation of powers, the executive, legislative and judiciary are independent. The legal system is stable and reliable. Even though court proceedings tend to take a very long time compared to Western Europe (not least due to the fact that numerous court dates are set before a judgement is passed even in simple cases), they are conclusively justified and comprehensible, especially in the higher courts.

Unlike in the Anglo-American legal area, where the common law/case law is most prevalent, in Hungary, laws and ordinances are to be used primarily, which are supplemented or interpreted by courts. In other words, the Hungarian legal system can be described as continental European. In many areas of civil and corporate law, it is based on German and Austrian law.

**Which special regulations or pitfalls should companies consider?**

We often find that our client base (which includes a large proportion of German SMEs) continues to apply processes proven in Germany to their subsidiaries in Hungary. Especially in the field of working time models, we are often confronted with so-called flexitime models, which are common in Germany, but are foreign to the Hungarian Labour Code in this form. In fact, the Hungarian Labour Code knows either

- a). the employment - in this case, the employer sets the working time of the employee
- or
- b) self-employment – the employee sets his working time individually.

Both models have their advantages and disadvantages. In model a), the employer may exercise his directorate rights, but runs the risk of falling into the “overtime trap” when setting the working time.

In the second model wage claims based on overtime are excluded. However, the price is very high because the employer cannot prescribe to the employee when to do the work planned for him. The employer can only set a reasonable time limit.

However, the flexitime model mentioned above does not fit into either the one or the other category, as it leaves to the employee to decide when to appear to work only in the flexitime period. In the core working time, the employee has no choice. As a result, settled case law considers flexitime models to be a dependent job, as core working hours define the working time model. As a result, the employee can claim overtime payments - as far as they are incurred. Often, these claims emerge as part of an employer termination and often involve a long period of time in the past. The limit is only the statute of limitations, which is usually three years.



**Rainer Tom**

is a Partner at the international law firm bnt, which operates ten offices across Central and Eastern Europe. Mr. Tom has been consulting foreign investors on their projects in Hungary since 1999, being based out of Budapest.

The employer can avoid these situations. Although the rules on working time models are very comprehensive and not easy to understand, they also offer significant opportunities. The benefits of a solution tailored to the needs of the company outweighs the consultancy costs incurred in its development. Expert advice can be economically worthwhile for the employer in this area.

It should also be mentioned at this point that the legislator has explicitly codified numerous alternative employment models. Here Hungary is already ahead of its neighbours. These models include job-sharing, time-sharing, seasonal work and part-time work.

### **What are the special features of Hungarian employment law, especially with regard to the hiring and dismissal of employees?**

The labour law reform, which came into force several years ago, has brought with it numerous changes, most of them being employer-friendly.

These include e.g. the legal consequence of an unlawful termination. In the event of a labour court review of a termination, the employee usually has no right to continued employment if the labour court comes to the conclusion that the termination was unlawful. The employee's claim is limited to the payment of a severance payment and, to a limited extent, to damages.

Thus, a termination is calculable for the employer in the truest sense of the word, because he has the certainty to separate from the employee in any case. The size of the imminent remuneration claims can also be estimated.

When recruiting staff, companies should be aware that the probationary period in Hungary is usually only three months.

### **What role does bureaucracy play in Hungary?**

The extra work caused by the bureaucracy is an economic problem, the resulting damage goes into the millions. Nevertheless, we see clear tendencies of improvement. Reforms are expected to result in shorter court cases. Since the legal reform is still relatively young, it still needs to be seen whether the mechanisms for speeding up procedures now enshrined in the law will be implemented, and when.

Significant progress has been made in the transfer of operating licenses when a production operation is transferred through an asset deal. In the past, all approvals that belonged to the business had to be reapplied by the acquirer - even if only the owner changed, while operations were continued unchanged. In such authorization procedures, the authorities are supporting businesses greatly by simplifying and shortening the approval process.

Hungary is at the forefront of converting paper-based correspondence with authorities to electronic procedures. Interactions with the courts take place only electronically, which brings a significant increase in the effectiveness and speed of the processes.

Bureaucracy can be found in Hungary not only in state authorities, but also in the private sector, which runs the risk of being overtaken by state authorities in the reduction of bureaucracy.

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## “INTEGRITY OF LEADERSHIP TEAM IS OF PARAMOUNT IMPORTANCE”

**The Hungarian HR market is considered very competitive. How do you find suitable candidates for executive roles?**

The labour market is indeed fiercely competitive, especially in production-related management positions. In view of the large number of production sites of international companies in Hungary, Plant Managers, Production Managers and other technical executives are in demand. Recruitment for such positions therefore requires some effort, especially for more remote locations.

Job postings currently have little chance of success in Hungary. We work exclusively through direct search, i.e. through the targeted identification and addressing of potential candidates. This procedure guarantees that the most relevant candidates in the market become available for a given vacancy.

The direct search approach demands considerable research effort - especially for placements beyond the big cities. In such cases, there are usually no or only a few suitable potential candidates on site, so that candidates from elsewhere need to be motivated for relocation with good arguments.

Our team can leverage an extensive database of Hungarian managers with an international profile, and in most cases can quickly approach potential candidates. However, such a database can by no means replace in-depth research. In executive search, every mandate has its specific characteristics, so that the market has to be analysed anew in any case.

Our mandates in Hungary are being managed by our Eastern European research team located in Moscow. In addition, we can rely on Budapest-based Hungarian researchers who work for us as freelancers or project partners. By leveraging these capacities, we ensure the due depth of research and local expertise that are indispensable in the competitive Hungarian market.



**Christian Tegethoff**

Managing Director  
CT Executive Search

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

When selecting a location companies should not only take into account the statistical wage level in each county, but also the actual availability of local labour. The statistics can only provide first indications, more reliable data can be provided by HR consultancies or companies already operating in the region.

In view of the challenges of external recruitment, companies should undertake long-term personnel planning and, where possible, take precautions in case of departure of key employees.

Companies that are entering the Hungarian market or have to make changes in their existing management should give priority to the careful search and selection of new senior employees. As in all countries, assigning the right candidates to management positions is the most significant factor for the company's success.

Hungary is a rather challenging market from a compliance perspective. The integrity of the local leadership team is therefore of paramount importance and this point should be scrutinized during recruitment with due diligence.

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