

An open-door policy toward investors

Pro-business Hungary has a powerful mix of tax regimes, legal frameworks and incentives in place to attract global investments

Foreign direct investments (FDIs) into Hungary surged by 24 percent to reach an all-time record €5.35 billion in 2019, as the country continues to cement its place as a preferred destination for the world's investors.

"Between 2014 and the first half of 2020, we successfully negotiated a total of 538 FDI projects with a value of €20.3 billion, creating over 92,000 jobs," says Róbert Ésik, CEO of the Hungarian Investment Promotion Agency (HIPA), the one-stop shop for investors. "According to the IBM Global Location Trends report, Hungary ranks 92th globally in terms of population but is now 16th when it comes to employment creation through FDI." Illustrating the wide-ranging potential in the country's economy, the 101 FDIs undertaken in 2019 were made in 20 different industrial sectors, he notes. "We are particularly strong in the automotive sector and have become a hub for electric mobility in Europe. In 2019, Hungary welcomed 10 e-mobility projects totaling €2.9 billion, including ones from SK Innovation, Samsung SDI and Audi. We also signed another 14 agreements with investors in business services centers. Sanoft, for example, selected Hungary as its location for global business services,



Farkas Bárony
President
AmCham Hungary



Hungary has attracted a record €5.35 billion in FDIs in 2019



Eszter Kamocsay-Berta
Managing Partner
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damentals: "It is economically and politically stable, with a strong focus on foreign trade and investment. We have a well-educated, competitively priced labor force and highly developed infrastructure. Our road networks are among the most dense and developed in Europe, while we have three international rail and road transport corridors crossing the country as well as the River Danube, which helps us to capitalize on our strategic location. Hungary is in the top-five countries worldwide for mobile data coverage as well." Potential and existing investors also benefit from the award-winning, proactive services of HIPA, which is among Europe's best promotion agencies, according to many experts. "We offer our full support, making sure that investors find the best possible solution to suit them within the country. We are a management consulting company that tries to address all their needs and answer all their questions. Our support is both administrative and financial, as we offer a wide range of incentives: the government has a very strong policy of incentivizing investments," Ésik explains.

The lowest corporate tax rate in the EU

KCG Partners is one of the country's best-rated law firms, with a particularly strong reputation in areas such as litigation, tax, employment law, regulatory compliance, mergers and acquisitions, property development and global relocation. KCG's managing partner, Eszter Kamocsay-Berta, provides an insight into some of Hungary's investment incentives. "It has a favorable tax and financial environment for business that the government has enhanced over the last couple of years by introducing measures that are available to all companies registered here regardless of their nationality. For instance, the government has created by far the most competitive corporate income tax regime in the EU with a 9-percent flat rate, and has gradually reduced taxes on employment: the social contribution rate has fallen from 27 percent in 2017 to 15.5 percent in 2020. In addition, there is no withholding tax on dividends, interest and royalty paid by a Hungarian company to a foreign company."

As a result of Hungary's spectacular economic growth over the last decade, 800,000 new jobs have been added in a country with a population of just 10 million. This has allowed a shift in the focus of FDI incentives from purely gaining new jobs to adding local value. "The government now has incentive schemes that support technology-intensive investments, job creation, asset investment and R&D projects via non-refundable cash subsidies, tax allowances

while Tesco chose Budapest for its regional business and IT services." Some of the other high-value-added areas where the country is a competitive force are communication technologies, pharmaceuticals, electronics, logistics, agribusiness, life sciences, medtech, tourism, real estate and renewable energy.

"Hungary is known for manufacturing but is transitioning toward services, innovation, research and development (R&D). We see a lot of attractive opportunities for investors here," confirms Farkas Bárony, president of the American Chamber of Commerce in Hungary. He is unsurprised that, to date, an incredible 1,700 U.S. companies have chosen to invest €11.6 billion in the country. "We sit in the heart of Europe with access to the European Union (EU) market of 450 million people, plus we have a very open, pro-business government that considers investors as a top priority."

Ésik puts forward some more of Hungary's many advantageous fun-

and available EU funds," details Kamocsay-Berta. These schemes are highly attractive. For instance, twice as much as a company spends on R&D can be deducted from its income tax, while firms committing to at least €3 million in R&D outlay are eligible for financial support of up to 25 percent of that investment. A well-established and clear regulatory framework also ensures an excellent investment climate, she asserts. "Hungarian employment law is one area that has undergone significant improvement in recent years, although it should be noted that there is a minimum monthly wage here, which is approximately €448 at the moment. Furthermore, investments are protected by the country's stability, which is reinsured by the fact that it is a member of the EU and other international organizations like the Organisation for Economic Co-operation



Tamás Lócsei
Country Managing Partner
PwC Hungary



László György
State Secretary for Economic Strategy and Regulation

Education reforms: A booster for innovation
Tamás Lócsei, country managing partner at PwC Hungary, highlights another area of new incentives for investors. "The government is fostering cooperation between universities and companies with special cash funds dedicated to R&D. The higher education system is also being reformed so that businesses will have much more say in shaping programs."

The tertiary education reforms will be the largest the country has ever seen, says László György, State Secretary for Economic Strategy and Regulation. "The employment market's

needs are changing rapidly, but our state-managed education systems haven't been capable of following this shift. So we have liberalized and deregulated vocational education to make it more flexible for new vocations to come into the system, and we are changing the operating model of our universities to make them privately led and closer to the market." According to György, this new model will substantially reduce the red tape involved in collaborations between universities and businesses. "From now on, if there is a demand from businesses, our universities can immediately meet it." Those companies will also gain from the €5 billion the government is investing to build cutting-edge innovation ecosystems in its universities and research institutions. "We've created 10 science parks and are establishing around 20 national laboratories. We're investing in our strengths and think Hungary can be very successful in future industries like big data, artificial intelligence, Industry 4.0, high-performance computing, hydrogen, biotechnology and genomics," he concludes.

"The government has created by far the most competitive corporate income tax regime in the EU with a 9-percent flat rate."

Eszter Kamocsay-Berta, Managing Partner, KCG Partners

and Development, the World Trade Organization, NATO and the International Monetary Fund. However, because Hungary has a continental legal system, civil procedures are characterized by formalities and cost intensity. But arbitration can be a quick, professional and cost-effective solution for commercial matters."

Throughout the life cycle of their projects, investors would be advised to utilize the services of an elite local law firm like KCG, 90 percent of whose work comes from repeat business and referrals. It benefits from a diverse team of internationally trained legal and business experts that have an in-depth understanding of the domestic investment environment. Added to which, as a member of Ally Law, a global legal network of 71 law firms, it can provide clients with quick solutions to international issues. From Kamocsay-Berta's insider perspective, Hungary offers areas of potential that external investors might not have considered. "An interesting trend is the generational change of family businesses. There are several thousand medium-sized companies with owners approaching retirement. This is creating attractive opportunities to acquire functioning businesses in traditional industries and innovative areas such as IT, software development and telecommunications."

A conducive tax environment



9%

Corporate tax rate



15.5%

Social security contribution



0%

Tax on dividends, interest and royalty paid by a Hungarian company to a foreign company

