

Embassy of India Budapest

...

Economic and Commercial Report for the month of February 2016

Executive Summary

1. Retail restrictions under EU scrutiny
2. IMF sees improvement of financial conditions in Hungary
3. New industrial strategy developed
4. Government to prioritise defence industry
5. 2015 a record year for tourism
6. BIH submits EU application

Economy

Retail restrictions under EU scrutiny: The European Commission is expected to launch an infringement procedure against Hungary over a regulation deemed to be discriminative against large companies. Parliament enacted a bill at the end of 2014 under which retailers with annual turnover of Ft 15 billion must close down after two consecutive years of loss-making. Companies that report back-to-back losses in 2015 and 2016 would have to close their operations, according to the regulation entering into force on January 1, 2017.

IMF sees improvement in Hungary: Hungary's financial vulnerability has shrunk significantly, the IMF has reported following its latest annual supervision. Although the level of state debt and Hungary's financing requirement remain high, the Hungarian economy is performing very well, the IMF said. Due to increased tax revenues and a better economic performance, the budget deficit of Hungary in 2015 was about 2% of GDP, below the 2.4% target.

Japan Credit Rating agency upgrade for sovereign debt: Japan Credit Rating Agency has revised its outlook for Hungarian sovereign debt from stable to positive, citing the deleveraging of foreign currency debt, stable growth and budget deficit and lower state debt.

Gov't plans to exert control over tourism industry: The government is planning to reorganise the tourism sector by setting up a centralised agency. The National Tourism Agency (NTA) is to replace Magyar Turizmus and would be the umbrella organisation for the sector, which accounts for 9% of GDP. The NTA would charge membership fees to businesses involved in tourism.

January surplus highest since 2012: The government budget surplus was Ft 92.2 billion last month, the highest January figure in four years, according to preliminary data from the Economy Ministry.

State debt falls below 76% of GDP: Hungary's state debt stood at Ft 25.4 trillion, or 75.5% of GDP, at the end of 2015, down from 76.2% a year earlier, according to preliminary data from the Central Bank (MNB). The Economy Ministry said the composition of debt has changed in a favourable way as less than 50% is now held by foreign investors, two-thirds of outstanding debt is denominated in forints, and retail investors hold 13% of all state securities.

Current Account surplus doubled in 2015: Hungary's current account surplus for December came to €454 million, down from €456 million in November, the MNB announced. For 2015 as a whole, the current account recorded a huge surplus reaching €5.5 billion, up from €2.4 billion in 2014.

Trade surplus at record high in 2015: Hungary's trade surplus and exports both rose to record high levels in 2015 figures to €8.1 billion, up from €6.3 billion in 2014, according to Central Statistics Office. Exports expanded by 7.4% to €90.7 billion, while imports grew 5.6% to €82.6 billion.

EC lowers growth forecast slightly: The European Commission has lowered its 2016 economic growth forecast for Hungary to 2.1%, and kept its 2.5% target unchanged for 2017, in its winter economic forecast. Economic growth is set to decelerate from an estimated 2.7% in 2015, due to a decline in the absorption of EU funds and a slowdown in external demand, the Commission said.

Q4 GDP growth beats expectations: Hungary's GDP was up 3.2% year-on-year in the fourth quarter, beating forecasts of a figure near 2.6%, according to preliminary data from the Central Statistics Office. The seasonally and workday adjusted increase was 3%.

January inflation below forecasts: Consumer prices were up 0.9% year-on-year last month, below the 1.2% estimate of analysts, and fell by 0.1% from December, the Central Statistics Office announced. Core inflation, excluding food and energy prices, was up an annualised 1.5%.

Wages up nearly 6% in December: Gross wages were up 5.7% year-on-year in December to a monthly Ft 272,647, the Central Statistics Office announced. Net wages went up also 5.7% to 178,585.

Retail sales growth at 5.6% in 2015: Retail sales rose by 5.6% last year, the fastest growth since 2004, after a 5.2% increase in 2014, according to calendar-adjusted figures from the Central Statistics Office. For December, year-on-year growth was 4.5%, up from 4.3% in November.

Industrial prices continue to fall: Industrial producer prices were down 1.3% year-on-year in December, the Central Statistics Office announced. This was the fifth straight month of a decline in prices, following a 0.8% fall in November.

Industrial output shows 9% growth: Industrial production was up 9.4% year-on-year in December, according to the Central Statistics Office. According to seasonally and workday adjusted figures, output went up 6.9% year-on November. Industrial exports increased 13.9% year-on-year in December, while domestic sales went up 2.8%. Industrial output expanded by 7.5% in 2015.

Varga signs accords in Korea: The Second Hungary-South Korea Joint Economic Committee meeting took place in Seoul. Agreements for enhancing cooperation in SME and tourism sector were signed between the two countries. About 40 Korean companies operate in Hungary, including several subsidiaries of Samsung, employing nearly 25,000 people, with investment of approx. \$ 2 billion.

FDI reached €1.4bn in 2015: State investment promotion agency HIPA supported 67 projects that together brought €1.4 billion of foreign investment to Hungary in 2015. It was announced that these projects have led to the creation of 13,000 jobs, 21% more than in 2014. India was the third largest investor in Hungary in 2015 with SMR Group announcing construction of a third plant.

2015 a record year for tourism: Hungary's tourism sector experienced a record year in 2015, as the number of visitors rose to 10.5 million, Economy Minister Mihály Varga announced. December guest nights were up 1.3% to 1.5 million from one year earlier, raising the full year figure to 25.7 million, an annual increase of 5.4%.

Commercial

New industrial strategy developed: The defence industry will be one of seven sectors that will have top priority in the government's new industrial strategy for 2016-20, Economy Ministry state secretary announced. The Irinyi Plan aims to boost the industry's share of GDP to 30% by 2020 from the present 23.5%. The other sectors to receive favoured treatment are green economy, vehicle manufacturing, specialised machine production, healthcare, pharmaceuticals, food production, and the IT and communications sector.

Thyssenkrupp building Ft 30bn facility: German industrial giant Thyssenkrupp announced a Ft 30 billion development project to build an auto parts factory in Jászfényszaru. Thyssenkrupp will produce new wheel and cylinder integrated control systems from 2017. Construction of the new factory will start in the spring and the expansion will create 500 jobs in the central Hungarian town

MOL reports huge quarterly loss: MOL reported a net loss for the fourth quarter of 2015 of Ft 257 billion, slightly worse than analysts' forecasts of Ft 240 billion. CEO Zsolt Hernádi observed that MOL, like the entire oil and gas industry, „had to face one of the toughest operating environments of the past two decades” last year, as oil prices fell more than 70% from their peak in the summer of 2014.

Richter Q4 beats expectations: Richter Gedeon saw a large increase in profits for 2015, despite the decline of the currency in Russia, the pharmaceutical maker's largest single market. Revenues for the quarter were at Ft 88.7 billion.

Bosch investing Ft 19bn in Hatvan: German industrial group Bosch will expand its factory in Hatvan with a Ft 19 billion investment, creating 601 jobs. The government is providing a Ft 4.7 billion subsidy for the investment. Bosch will make control units for new generation electric and hybrid cars and mid- and long-range radars and sensors.

Malév's Balkan flight routes to be sold: The government will invite bids for unused destination licences previously held by the state airline Malév in the West Balkans in the EU official gazette, the Development Ministry confirmed. The winners of the West Balkan routes will obtain a monopoly and can claim compensation for losses or failure to generate reasonable profits from operating the flights, the ministry said. The winning airlines can sign four-year contracts by the end of June.

K&H signs Ft 30bn loan guarantee deal: K&H Bank and the European Investment Fund have signed an agreement that will provide Ft 30 billion from an EU loan guarantee programme to some 1,500 SMEs over the next three years. The programme grants a 50% credit guarantee on loans of up to Ft 45 million free of charge. Companies deemed to be a credit risk can obtain financing at favourable rates, K&H pointed out. K&H realised profits of Ft 9.4 billion in the fourth quarter and Ft 38.1 billion for the whole of 2015.

Bilateral

Trends in bilateral trade: Source: Central Statistical Office (www.ksh.hu)

Global trade of Hungary (USD, EUR billion)

	2013	2014	2015	% change
Global imports	99.3 USD 74.7 EUR	104.3 USD 78.2 EUR	91.4 USD 82.4 EUR	-12% +5.4%
Global exports	108.0 USD 81.3 EUR	112.8 USD 84.5 EUR	100.4 USD 90.5 EUR	-11% +7.1%
Total	207.3 USD 156.0 EUR	217.1 USD 167.2 EUR	191.8 USD 172.9 EUR	-12% +6.3%

Bilateral Trade (USD, EUR million)

	2013	2014	2015	% change
Import from India	365.6 USD 275.0 EUR	385.1 USD 286.7 EUR	364.9 USD 329.2 EUR	-5% +14.8%
Export to India	216.9 USD 162.8 EUR	210.5 USD 157.3 EUR	213.8 USD 193.7 EUR	2% +23.1%
Total	582.5 USD 437.8 EUR	595.6 USD 444.0 EUR	578.7 USD 522.8 EUR	-3% +17.8%

Top 10 items of Export to the World 2015 (USD mln)

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	112,536.9	100,387.6	-10.8%	100%
85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES	22,201.1	20,074.7	-9.6%	20%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	21,090.3	18,902.4	-10.4%	19%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	17,814.6	18,003.0	1.1%	18%
30 PHARMACEUTICAL PRODUCTS	4,990.3	4,822.7	-3.4%	5%
39 PLASTICS AND ARTICLES THEREOF	4,303.3	3,834.5	-10.9%	4%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	4,591.4	3,311.8	-27.9%	3%
40 RUBBER AND ARTICLES THEREOF	2,607.9	2,373.8	-9.0%	2%
27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES	3,778.6	2,334.2	-38.2%	2%
94 FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS; LAMPS AND LIGHTING FITTINGS, NOT ELSEWHERE SPECIFIED OR INCLUDED; ILLUMINATED SIGNS, ILLUMINATED NAME-PLATES AND THE LIKE; PREFABRICATED BUILDINGS	1,969.5	1,760.6	-10.6%	2%

Top 10 items of import from the World (USD mln)

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	104,188.1	91,384.8	-12.3%	100%
85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES	20,096.9	18,693.9	-7.0%	20%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	17,232.4	15,592.7	-9.5%	17%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	9,839.7	9,516.3	-3.3%	10%
27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES	12,480.1	7,432.8	-40.4%	8%
39 PLASTICS AND ARTICLES THEREOF	4,582.1	4,167.8	-9.0%	5%
30 PHARMACEUTICAL PRODUCTS	3,874.0	3,958.2	2.2%	4%
73 ARTICLES OF IRON OR STEEL	2,380.8	2,104.7	-11.6%	2%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	2,054.4	1,923.7	-6.4%	2%
40 RUBBER AND ARTICLES THEREOF	2,018.8	1,836.2	-9.0%	2%
72 IRON AND STEEL	2,474.1	1,835.7	-25.8%	2%

Top 10 items of Export to India 2015 (USD mln)

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	210.5	213.8	1.6%	100%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	86.8	77.6	-10.6%	36%
85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES	34.9	52.2	49.7%	24%
29 ORGANIC CHEMICALS	22.5	26.6	18.1%	12%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	6.1	9.4	53.2%	4%
39 PLASTICS AND ARTICLES THEREOF	9.4	7.5	-20.3%	4%
90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	13.0	7.1	-45.3%	3%
48 PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR OF PAPERBOARD	5.4	4.5	-16.1%	2%
73 ARTICLES OF IRON OR STEEL	5.7	4.0	-30.8%	2%
74 COPPER AND ARTICLES THEREOF	3.8	3.8	-0.5%	2%
94 FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS; LAMPS AND LIGHTING FITTINGS, NOT ELSEWHERE SPECIFIED OR INCLUDED; ILLUMINATED SIGNS, ILLUMINATED NAME-PLATES AND THE LIKE; PREFABRICATED BUILDINGS	5.0	2.9	-42.7%	1%

Top 10 items of Import from India 2015 (USD mln)

Product	2014. year	2015. year	% growth	% total
Total Product (according to the Combined Nomenclature)	385.1	364.9	-5.2%	100%
84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	82.3	94.4	14.7%	26%
29 ORGANIC CHEMICALS	97.5	84.5	-13.3%	23%
30 PHARMACEUTICAL PRODUCTS	72.8	72.6	-0.2%	20%
85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES	58.3	51.2	-12.2%	14%
87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	9.8	9.2	-5.7%	3%
64 FOOTWEAR, GAITERS AND THE LIKE; PARTS OF SUCH ARTICLES	9.4	6.4	-32.0%	2%
40 RUBBER AND ARTICLES THEREOF	5.6	5.7	2.6%	2%
73 ARTICLES OF IRON OR STEEL	6.1	4.7	-23.5%	1%
39 PLASTICS AND ARTICLES THEREOF	5.5	4.0	-26.7%	1%
41 RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	3.6	2.4	-32.8%	1%

Average Monthly Exchange rates for Feb 2016

1US\$= 289.75 HUF

1EUR= 310.13 HUF

Source: MNB-Hungarian National Bank www.mnb.hu

Upcoming Trade Fairs in Hungary:

(I)	<u>SIRHA INTERNATIONAL GASTRONOMY EXHIBITION</u> 9-11 May 2016 –Expo on food and beverages
(II)	<u>INDUSTRY DAYS</u> 24 - 27th May 2016 –Expo showcasing most industrial branches in Hungary
(III)	<u>MEOE – DOG SHOW</u> 3 - 5th June 2016 – Dog breeders expo and competition
(IV)	<u>BNV</u> 29 Sept - 2nd October 2016 – International consumer trade fair with focus on Home and Garden, Children, Gastro, Lifestyle

Further information: www.hungexpo.hu

Trade enquiries: In the month of February 2016 Embassy of India, Budapest received 25 enquiries from India and 1 trade enquiries from Hungary.

Indian Trade inquiries for the month of February 2016

S. No.	Enquiry originator	Product	HS codes	Nature Export/Import value (\$ mln)	Action taken
1	Thakker Overseas	Miscellaneous: Agro: rice, spice, tea, kitchen, bathroom, pumps, gifts		Export to Hungary	All inquires have been answered
2	Craftedindia	Handicrafts		Export to Hungary	
3	Om Sai decoration	Ceramic tiles		Export to Hungary	
4	M.B. Metal India	Engineering: steel and metal		Export to Hungary	
5	Sai Care	Pharma		Export to Hungary	
6	Dhruv Fashions	Spices		Export to Hungary	
7	Blackbeard overseas	Confectionery		Import to India	
8	M Kube International	Textiles: garments		Export to Hungary	
9	Winsun Ceramic India	Ceramic tiles		Export to Hungary	
10	Kiran Industries	Agro: herbs and spices		Export to Hungary	
11	Kendale International	Handicrafts, textiles		Export to Hungary	
12	Goodgood Manufacturers	Autocomponents, Fasteners, Fittings, Steel rods, etc.		Export to Hungary	
13	J.S. International	Coco, spices		Export to Hungary	
14	Natural Agro Ex	Agro: barley, nuts, wheat		Export to Hungary	

15	R. K. Enterprise	Ceramic tiles, sanitary ware		Export to Hungary	
16	Antique Group of Companies	Ceramic tiles		Export to Hungary	
17	Ari Healthcare Pvt.Ltd	Pharma		Export to Hungary	
18	Krishna Trades Impex	Textile fabrics		Export to Hungary	
19	Elixir Chemica,	Pharma ingredient		Export to Hungary	
20	Vinayak Ayurvedic Agency	Ayurvedic Herbal medicine, spices		Export to Bosnia	
21	Pramukh Import and Export	Agro: Vegetables		Export to Hungary	
22	Aand Exports	Agro: herbs		Export to Hungary	
23	Exagres International Pvt.Ltd	Ceramic tiles		Export to Hungary	
24	Jalpa International	Engineering: Engine part casting		Export to Hungary	
25	Shruti Engineering	Engineering: brakes		Export to Hungary	

Bosnia & Herzegovina (BiH)

Bosnia submits EU Membership application: Bosnia submitted application for EU membership on 15th February. Mr. Denis Zvizdic, Chairman of the Council of Ministers, said that the day marked „one of the most important events in Bosnia's EU integration process and confirms the country's clear commitment to join the EU”. He added that combined with credible implementation of the Reform Agenda and the adopted Coordination Mechanism, the application had its credibility.

FBiH Government Debt Reaches 6.3 Billion Euro at End-2015: The government of Bosnia's Federation said that the entity's combined domestic and foreign government debt reached 6.3 billion KM at the end of 2015. The Federation's external debt amounted to 5.3 billion KM in 2015, while domestic debt reached 994.9 million KM, the government said.

Energy Production Potential Can Attract Investments Worth Ten Billion Euro: According to the Foreign Investment Promotion Agency (FIPA), BiH has huge economic potential and it could attract investments worth up to ten billion euros in the field of energy production alone. Information technology is also a field of great potential, growing at a 72% in the past 5 years. According to FIPA citing Central Bank data (between May 1994- Dec 2014), FDI mostly target production sector (36%), banking sector (20%), telecommunications sector (14%) and trade sector (11%). Extremely low percentage of foreign direct investments was recorded in tourism sector, only two percent of total investments.

Foreign Investments Decline Drastically: Foreign investments in BiH almost halved in the first three quarters of 2015 from the same period a year earlier.. As compared to full year 2014, where FDI was 739.5 million KM, in the first nine months of 2015 this dropped to 388.9 million KM," FIPA said. Most investments in the first three quarters came from Austria, Luxemburg, Turkey, Russia and Serbia, mainly in the fields of telecommunications, financial service activities, wholesale, coke production and refined oil products. Foreign investments in Republika Srpska also drastically declined and were only 68 million KM in the first six months of 2015.

EBRD Forecasts 3% BiH GDP Growth This Year: The European Bank for Reconstruction and Development (EBRD) expects BiH GDP this year to grow three percent, up from the previous two percent says the EBRD Transition Report 2015-2016.

TRADE FAIRS in Bosnia and Herzegovina

ENERGA	International trade fair for energy, industry and mining	Stadion TušanjTuzla	07-09 .06 2016	www.tuzlanskisajam.ba
ZEPS	23rd General B&H Fair	Kamberovića polje, in Zenica	04-08.10.2016	http://zeps.com
RENEXPO	International Trade Fair and Conferences on Renewables and Energy Efficiency	Hotel Hollywood DeLuxe, Sarajevo	03-04. .11 2016	www.renexpo-bih.com

<http://www.tradefairdates.com/Fairs-Bosnia-and-Herzegovina-Z18-S1.html>

Average Monthly Exchange rates for February 2016

1US\$= 1.760907 KM

1EUR= 1.955830 KM

Source: Central Bank BIH <http://cbbh.ba>

Vijay Khanduja
First Secretary (Com/Pol)
Embassy of India
Budapest