

Chapter 9 - Hungary

Hungary: Inward FDI and its policy context, 2012

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In the 1990s, Hungary used to be a front-runner among Central and Eastern European countries in terms of attracting foreign direct investment (FDI). At that time, it attracted FDI both through the privatization of state-owned enterprises to foreign multinational enterprises (MNEs), and through Greenfield investment by foreign MNEs in export-oriented manufacturing (especially automotive and electronics). Almost two decades later, the economy is still a major host of FDI, with inflows of US\$ 4.7 billion in 2011, although it has lost its privileged status within the region. Its policy approach to inward FDI (IFDI), too, has undergone changes over the past two decades: from being a country that was the first in Central and Eastern Europe to open its economy fully to FDI and offer incentives for it, it has moved to being one with more selective policies. The Government still successfully encourages FDI in export-oriented production (particularly automotive); however, in utilities, banking and retail, it has recently imposed windfall taxes, which mostly affect foreign players, indicating a less favorable stance toward them. This change in policy is in partly a result of the recent global financial and economic crisis, which has hit the country hard.

Trends and developments

Country-level developments

Hungary was practically the first country in Central and Eastern Europe (CEE) to open up to foreign investors at the beginning of the region's transition to a market economy, and it was also the first to involve foreign investors to a great extent in the privatization process. Thus, it took the lead among CEE economies in the first decade of transition in terms of per capita IFDI stock and IFDI stock as a percentage of the gross domestic product (GDP), as reflected by data for 2000 (annex table 1). In 2000, Hungary's IFDI stock was also higher in absolute terms than that of any other CEE country except Poland, which is much larger in terms of population and GDP. However, in the second decade after the start of the transition process, Hungary lost its leading position. In 2011, Hungary's stock of IFDI was lower than that of Poland and the Czech Republic, and its per capita IFDI lower than that of the Czech Republic and Slovakia.¹ In terms of IFDI stock relative to GDP, Bulgaria and Estonia surpass Hungary. However, in international comparison, the Hungarian economy can still be considered one in which IFDI plays a major role.

The relative decline of Hungary's attractiveness for IFDI can be traced in its inflows, which became relatively lower, compared to those of the other CEE countries, starting from around 2004–2005 (annex

* The authors wish to thank Gabor Hunya and Mikhail Szany for their helpful comments. First published October 18, 2012.

¹ Per capita IFDI has been calculated on the basis of data from UNCTAD's FDI/TNC database (for IFDI) and World Bank data on population of countries.

table 2). A directly comparable economy in terms of size of population, the Czech Republic had a higher inflow in almost every year between 2000 and 2011. On the other hand, new competitor countries in a catching-up phase for IFDI appeared on the scene: from around 2000, Slovakia, and then Bulgaria and Romania had relatively high inflows from just before their joining the European Union in 2007. In addition, FDI flows to Hungary were hit hard especially during the crisis years of 2009 and 2010, both in absolute terms and relative to flows to other countries in the CEE region. The ratio of IFDI flows to gross domestic capital formation also declined noticeably in 2009–2010 (annex table 2a). Data for 2011 indicate an increase in FDI inflows, however, as a press release of the Hungarian National Bank¹ states; this is mainly due to a large capital in transit² flow in the fourth quarter of 2011. According to the same source, capital in transit accounted for around 83% of total inflows in 2011, which indicates that “real” FDI inflows have not recovered yet.

Until 1998, privatization played an important, and in certain years even dominant, role in the FDI inflows.³ In comparison, between 2000 and 2011, only two years (2003 and 2005) witnessed large privatization projects involving FDI. In 2005, the largest privatization deal in the modern history of Hungary took place when 75% of the shares of Budapest Airport were sold to the British BAA International Ltd.⁴ In 2003, Postabank was sold to the Austrian Erste Bank.⁵ Smaller transactions took place in other years, though they did not have a major impact on the level of annual FDI inflows.

Over the period 2000–2010, the composition of inward FDI in Hungary changed considerably. The share of equity capital diminished, even turning negative in certain years (2003, 2009). At the same time, reflecting the competitiveness and profitability of the foreign affiliates already operating in Hungary, reinvested earnings dominated during most of the decade, the main exceptions being the crisis years between 2008 and 2010. Other capital (mainly intra-firm lending) was strong in 2001, 2006 and 2009, while in 2010 (again presumably because of the impact of the crisis) it was strongly negative.⁶

There has been a significant change in the sectoral composition of IFDI during the two decades of significant FDI flows to Hungary. At the beginning of the 1990s, manufacturing attracted the bulk of FDI. The sector remained relatively important for IFDI in 2000 (annex table 3), accounting for 47% of total FDI stock. Its significance however gradually decreased. In 2009, the share of this sector declined to below one-quarter of total stock, although it rose again somewhat (to 30%) in 2010. Within manufacturing, some branches are dominated by foreign affiliates, for example the production of transport equipment and electrical equipment. On the other hand, FDI in services gradually gained importance, which is explained in the 1990s by the sequence of privatizations, and in the years after 2000, by the rising shares of “wholesale, retail trade and repair” (partly the building of big supermarkets)

¹ See

http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Statisztika/mnben_statkozlemeny/mnben_fizetesi_merleg/CA11Q4_EN.pdf.

² “Capital in transit means that Hungarian companies receive capital or a loan from one member of a group of companies, which they transfer to another foreign member of the group at very short notice.” See, *ibid*, p. 4. “Capital in transit means transactions within a multinational enterprise group that pass through the compiling economy without making any impact.” *ibid.*, p.8.

³ Kalman Kalotay and Hunya Gábor, “Privatization and foreign direct investment in Central and Eastern Europe,” *Transnational Corporations*, vol. 9, No.1 (April 2000), pp. 39–66.

⁴ See <http://news.bbc.co.uk/2/hi/business/4540316.stm>.

⁵ See <http://www.erstegroup.com/content/0901481b/8000aaf5.pdf>.

⁶ See the balance-of-payments statistics of the Hungarian National Bank at http://www.mnb.hu/Statisztika/statisztikai-adatok-informaciok/adatok-idosorok/vii-kulkereskedelem/mnbhu_fizm_20090330.

and “real estate, computer and business services” (partly the offshoring and offshore outsourcing of certain business services to Hungary).¹

Overall, FDI is more present in Hungary’s tradable industries (even in services,² such as tradable business services or computer services) than in the tradable sectors of its competitor economies in the region.³ Nevertheless, Hungary is also a host to large FDI projects in non-tradable service industries such as banking, retail and telecommunications, where foreign affiliates dominate the industry.

As in other new member states of the European Union,⁴ investors from other EU member economies (especially Germany, the Netherlands, Austria, Luxemburg, France) dominate FDI in Hungary, together with those from other developed countries from outside Europe (especially the United States and, to a lesser extent, the Republic of Korea and Japan) (annex table 4).⁵ The emergence of Central America as a source may be related to substantial outward FDI from Hungary in previous years and may serve tax optimization purposes; for example, some important Mexican investors (Cemex, Nematik) are present in Hungary, but data on FDI by source do not indicate investments that originate in Mexico (annex table 4).

Foreign affiliates play a determining role in the Hungarian economy. As noted, in comparison with other new member states of the European Union, the FDI stock as a percentage of GDP is among the highest in Hungary (annex table 1). Foreign affiliates are responsible for more than 80% of business R&D, for almost 80% of exports and for almost half of total gross value added. They own more than half of capital owned by companies, carry out more than half of investments and employ more than 20% of the workforce.⁶ Practically all the top exporters of the country are foreign affiliates (see the next section on The Corporate Players).

One of the most important channels for a positive impact of IFDI on the host economy is backward linkage, i.e., the contacts of foreign affiliates with local suppliers. These linkages remained below expectations in Hungary, though anecdotal evidence points to their increase since the first MNEs started their operations in Hungary. The reasons for the limited linkages can be found both on the supply and demand sides. On the demand side, many affiliates do not have the independence to decide about their suppliers. In some cases, they do not require large enough quantities from local companies so that local firms are not interested in investing further amounts for becoming suppliers. On the supply side, many Hungarian companies are not able to supply the required spare parts and components in the required

¹MagdolnaSass and Martina Fifekova, “Offshoring and outsourcing business services to Central and Eastern Europe: Some empirical and conceptual considerations,” *European Planning Studies*, vol. 19, No.9(2011), pp. 1593–1609.

²Jane Hardy, Magdolna Sass and Martina Fifekova, “Impacts of horizontal and vertical foreign investment in business services: The experience of Hungary, Slovakia and the Czech Republic”, *European Urban and Regional Studies*, vol. 18, No. 4(2011), pp. 427–443.

³Yuko Kinoshita, “Sectoral composition of foreign direct investments and external vulnerability in Eastern Europe”, IMF Working Paper WP/11/123, May 2011.

⁴KalmanKalotay, “Patterns of inward FDI in economies in transition”, *Eastern Journal of European Studies*,vol. 1, No. 2 (2010), pp. 55–76.

⁵Registered countries of origin of FDI do not always represent the country of the parent company of a MNE because, in many cases, affiliates realize the actual investments due to tax, strategic, geographical, or cultural reasons. This is the case with respect to some important investments in Hungary (e.g., Siemens invested through its Austrian affiliate, GM and IBM through their German affiliates). This may be the reason for the high share of FDI from Central America as well.

⁶ZoltánPitti, “A gazdaságiteljesítményekvállalkozásimérettőlfüggetlenségjellemzőiMagyarországon” (“The characteristics of economic performance in relation to the size of the companies in Hungary”), *Köz-Gazdaság*, vol.VI, No.3 (October 2011), pp. 91–116.

quantity and/or quality, not able to meet other requirements (e.g., terms and timeliness of delivery) or are not able to meet the requirement of continuous productivity improvements. However, there are some Hungarian affiliates of foreign MNEs with a high level of local sourcing. For example, Knorr-Bremse acquires an estimated 30–40% of its inputs from Hungarian and locally owned companies.¹ In the case of Electrolux, for certain products the share of local, mainly Hungarian-owned suppliers, is around 80%.² At the other extreme, Audi has a very low number of local, and especially Hungarian-owned suppliers. Altogether, Audi buys locally only 4.5% of the parts and components used in the production of its cars.³

While market-seeking investments dominated in the first half of the 1990s, efficiency-seeking FDI gradually became more and more important. The latter were helped until the country's EU accession in 2004 by the special regulation on industrial customs-free zones,⁴ in which companies assembled imported inputs into exportable outputs, using mainly local workers. Large projects in the electronics and car industries and in the white goods industry are motivated mainly by the availability of skilled but relatively cheap labor. After 2003, efficiency-seeking investments grew rapidly in certain service industries as well, for example in business and computer services. In certain industries, especially in pharmaceuticals, accumulated knowledge in Hungary is also a factor of attraction.

The corporate players

The largest foreign affiliates in Hungary can be classified into two distinct groups. In the first one concern the Hungarian affiliates of foreign MNEs, among which the largest ones by total sales are the local affiliates of Audi, Nokia, GE, Samsung, Philips, E.ON, Deutsche Telekom (M-Telekom), and Fibria Cellulose (annex table 5). In the second category, there are the formerly Hungarian-owned companies that were privatized through the stock exchange and are now in majority foreign ownership, such as MOL (one of the top ten by sales), OTP Bank and Richter. The specific feature of these latter companies is that they are under dispersed foreign ownership but not under foreign control; thus the local, Hungarian management takes all strategic decisions. These three companies, which are also very active outward foreign investors, are therefore not foreign affiliates in a strict sense.⁵ The listing of the top ten is largely similar in terms of foreign affiliates' own capital or assets (annex table 5a). This ranking favors capital-intensive firms such as MOL, Audi and M-Telekom. A third ranking of the top foreign affiliates, by exports, which reflects the efficiency motive driving much FDI in Hungary, is headed by MOL and Audi (annex table 5b).

¹Magdolna Sass, "The use of local supplies by MNC affiliates: what are the determining factors?" ICEG EC, Opinion No. 10, September 2008, available at:

www.icegec-memo.hu/hun/docs/KESZ_20060131/opinion_mnc_affiliates.pdf.

² AndrásBakács, VeronikaCzakó and Magdolna Sass, "Beszállítókészülékosodás: az Electrolux-LehelKft. példája" ("Suppliers and networking: the case of Lehel-Electrolux"), *Külgazdaság*, vol. L, No. 7–8 (2006), pp. 44–59.

³Sass, (2008), *op. cit.*

⁴This regulation was abolished in 2004. See more details in Magdolna Sass, "FDI in Hungary: the first mover's advantage and disadvantage," *European Investment Bank Papers*, vol. 9, No. 2(2003), pp. 62–90.

⁵ See Magdolna Sass and KálmánKalotay, "Hungary: Outward FDI and its policy context, 2010", in: Karl P. Sauvant, Thomas Jost, Ken Davies, and Ana-Maria Poveda-Garcés, eds., *Inward and Outward FDI Country Profiles* (New York: Vale Columbia Center on Sustainable International Investment, January 2011), available at: <http://www.vcc.columbia.edu/books>, pp. 115–129.

As noted in the preceding section, some industries within Hungary's manufacturing and services sectors are dominated by foreign affiliates. For example, in the production of transport equipment, Hungary is host to production sites of Suzuki (Japan) and Audi (Germany); a new factory of Daimler AG (Germany) started its production in 2012. Some other companies such as General Motors' (United States) German affiliate Opel have important spare parts operations in Hungary. Important first-tier automotive suppliers also produce in Hungary, such as the German Knorr-Bremse and Robert Bosch. In electronics, the world's various leading branded and contract manufacturers are present in the country, including National Instruments, Jabil and GE (all United States), Flextronics (Singapore), Foxconn (Taiwan Province of China), Philips (the Netherlands), Samsung (Republic of Korea), Siemens (Germany), and Nokia (Finland). In services, examples include: in banking, MKB, majority owned by the German Bayerische Landesbank and CIB Bank owned by the Italian Intesa Sanpaolo SpA; in retail, the French Auchan, the Belgian-owned Cora, the British Tesco, and the German Lidl; and in telecommunications, M-Telekom (owned by Deutsche Telekom) and the local affiliate of the Norwegian firm Telenor.

Annex table 6 lists the largest M&A deals by foreign MNEs in Hungary during the period 2009–November 2011, including the top five each year in terms of estimated/announced transaction values. The majority are in services, but the two largest deals are the acquisition of a 20% share in the oil and gas company MOL Nyrt by Russia's Surgutneftgaz in 2009 – a share that the Russian company subsequently agreed to resell to the Hungarian Government, as described in the section below – and the acquisition of a majority share in the chemicals manufacturer BorsodChem Zrt by China's Yantai Wanhua Synthesize Group in 2011. Among the top Greenfield FDI projects in Hungary during 2009–November 2011 (annex table 7), the largest is a US\$1.2 billion investment by Volkswagen (Audi) in 2010.

Effects of the recent global crisis

The 2008–2009 global crisis hit FDI inflows to Hungary hard. This can be attributed not only to the supply side of FDI, but also the demand side: the Hungarian economy experienced the biggest slowdown in the CEE region. Domestic economic problems aggravated the impact of the global crisis. Because of a high and unsustainable budget deficit and rocketing state debt arising well before the crisis, a restrictive fiscal policy was implemented that deepened the decline of GDP.

During the crisis years, especially in 2009 and 2010, a strong decline characterized FDI inflows. While in previous years (except for 2003) annual inflows always exceeded US\$ 3 billion, in 2009 and 2010 they fluctuated around US\$ 2 billion. In 2009, both equity capital and reinvested earnings turned negative, while in 2010, the “other capital” component of IFDI went into the red. As it was already noted, the recovery indicated by 2011 data is only virtual because of the large share of transit capital in that year's inflow.¹

The crisis also opened opportunities for MNEs from emerging markets to enter or expand in Hungary. Examples of MNEs from China include Huawei, which expanded its already existing affiliate in 2011; ZTE, which entered Hungary in 2010 in order to supply Telenor (Norway) from a closer location; and Wanhua, which acquired the chemical firm Borsodchem in 2011.² Even more prominently, Russian MNEs attempted to buy large assets in Hungary, building on traditional trade links between the

¹See footnotes 2 and 3.

² <http://www.ft.com/cms/s/0/1aadca66-2e2e-11e0-8733-00144feabdc0.html>.

countries. As noted, in the energy industry where the links are particularly intense, Surgutneftegaz bought 21% of MOL from OMV Austria in 2009 (annex table 6). However, both the Hungarian Government and the target company blocked this takeover and, in the end, Surgutneftegaz agreed in 2011 to resell its stake to the Hungarian Government.¹ In another case, the Russian state-owned Sberbank agreed in 2011 to buy the foreign affiliates of Volksbank International (Austria) in eight transition economies, including Hungary.² The latter company intended to reduce its losses incurred in those countries, and in Hungary in particular, where a windfall tax on banking (see the following section on the policy scene) has plunged most foreign-owned banks into the red.³

The crisis had a dual effect on individual FDI projects. It accentuated the scaling down of some of the projects negatively affected by the combined effects of global competition and the global crisis.⁴ As a result, FDI inflows remained low. At the same time, some large projects were announced recently, especially in the automotive industry, although they could not fully compensate for the decline experienced elsewhere. One of the biggest Greenfield investments, amounting to the US\$ 1.2 billion, was that begun by the German Daimler AG in 2009 in Kecskemét.⁵ The Hungarian affiliate produces Mercedes Benz cars in Hungary, starting from March 2012. Another significant project was the extension of production capacity by Audi, which is already present with an affiliate in Győr. This extension was initiated in July 2011 and its value was US\$ 1.2 billion as well.⁶ In the same year, General Motors/Opel announced a significant capacity extension in its affiliate in Szentgotthárd, which will result in a US\$ 672.6 million inflow (annex table7). These large projects are spread over more than one year, and thus expected to influence FDI inflows in the coming years.

The policy scene

Hungary is a small open economy that, at the beginning of its transition to a market economy, embarked on a deep process of liberalization that to a large degree is irreversible. Although the Government's attitude has shifted in recent years toward more state intervention, Hungary is a founding member of the World Trade Organization, and therefore bound by its rules on trade and subsidies. In addition, it has been a full member of the European Union since 2004, benefiting from its customs union and, since 2007, also from the free movement of persons due to its entry into the Schengen zone. Hungary is bound by EU rules on state aid, which creates an even playing field with other new EU member economies in terms of FDI incentives, which are bound by exactly the same rules. Hungary has also signed the Lisbon Treaty (which entered into force in 2009), which envisages a gradual transfer of FDI policy responsibilities from member states to the European Union. The most visible effect of that change concerns bilateral investment treaties (BITs): the Commission is now entitled to negotiate BITs in the

¹KalmanKalotay and Andrei Panibratov, "Developing competitive advantages of Russian multinationals through foreign acquisitions." Paper presented at the International Conference on Re-Assessing Emerging Market Multinationals' Evolving Competitive Advantage, Judge Business School, University of Cambridge, United Kingdom, March 25–27, 2011.

² http://www.bbj.hu/finance/sberbank-completes-volksbank-acquisition_62654.

³ <http://www.ft.com/cms/s/0/77fe45c8-9387-11e1-8c6f-00144feab49a.html#axzz21FNvp5Zm>.

⁴On long-term trends in relocation, see GáborHunya and Magdolna Sass, "Coming and going: gains and losses from relocations affecting Hungary", wiiw Research Reports, No.323, The Vienna Institute for of International Economic Studies, Vienna, November 2005. On trends during the crisis, see Sergey Filippov and KalmanKalotay, "Global crisis and activities of multinational enterprises in new EU member states," *International Journal of Emerging Markets*, vol.6 (4) (2011), pp. 304–328.

⁵See <http://media.daimler.com/dcmmedia/0-921-656507-1-1246693-1-0-0-0-0-11701-614232-0-1-0-0-0-0.html>.

⁶ See <http://www.reuters.com/article/2011/07/07/audi-idUSLDE7660OH20110707>.

name of all 27 member countries, and the treaties of the latter have to be revised for their compatibility with the Lisbon Treaty. However, it seems that member countries are not yet fully prohibited to negotiate new treaties, and can keep the old ones once they have passed a compatibility test. This is an important consideration for Hungary, which had 56 ratified BITs at the end of 2011.¹

Hungary has traditionally had an open investment regime, with national treatment, most-favored-nation treatment and fair and equitable treatment offered to most investors. In addition, EU investors have to be treated like local investors without exception. This situation however may change in the future, as some of the most recent policy measures adopted by the Government -- especially the windfall ("crisis") taxes on selected industries (banking, energy, retail, telecommunications) -- could be interpreted as problematic for the fair and equitable treatment of foreign investors as the latter are overrepresented in the group of firms affected by new taxes.²

Since a new conservative team gained a two-thirds majority in the Hungarian Parliament in May 2010, the Government has sent mixed messages to the international investment community. On the one hand, it continued supporting export-oriented projects, especially in the automotive industry, electronics production and shared service centers that build on the country's undoubted cost advantages and skills. Projects in those areas have continued to benefit from government subsidies within the limits that the EU has imposed on state aid. At the same time, the Government has explicitly and implicitly taken a hostile stance toward FDI in certain service industries, especially in banking, energy, retail trade, telecommunications, and water supply.³ The first four of these five industries have been stricken by high windfall taxes, constructed such a way as to maximize their impact on foreign players.

An additional sign of a less enthusiastic welcome to foreigners in retail became evident when the Government introduced a voucher system offering tax benefits to employers and employees purchasing mostly food items. These vouchers have been offered for acceptance by locally owned hypermarkets, but not by any of the large foreign-owned chains. As for water supply, the Government has made it clear that it sees it as a regulated industry in the future,⁴ largely incompatible with the profit motives of foreign investors. The current ruling party already demonstrated its hostility to FDI in water supply in September 2009, when nationally it was still in opposition but in control of the municipality of Pécs: the local city council de facto expropriated the assets of Suez (France), which had a water contract in Pécs.⁵ In a country that traditionally had an investor-friendly environment in the 1990s and 2000s, this was the first "nationalization" of a foreign investor in more than two decades.

¹The BITs cover 57 countries (the same treaty applies to both Belgium and Luxembourg), of which 22 are EU members, four are other developed countries (the United States is nevertheless missing from this list), 11 are economies in transition and 20 are developing countries. Source: UNCTAD's Investment instruments On-line database, available at: [http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20\(IIA\)/Investment-instruments-On-line-database.aspx](http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/Investment-instruments-On-line-database.aspx).

² The EU has initiated investigations on the compatibility of these taxes with Hungary's membership. See "European Commission investigates controversial Hungary tax", *Eurotribune*, January 3, 2011 (<http://www.eurotribune.eu/index.default.php?p=17158&l=0&idioma=2>), and "Brussels says Hungary's "crisis tax" on telecoms is illegal", *Eurotribune*, September 29, 2011 (<http://www.eurotribune.eu/index.default.php?p=20656>).

³ <http://www.budapesttimes.hu/2011/01/10/tax-bitten-multinationals-howling-in-brussels/>.

⁴ See, for example, "PM Orbán unveils National Protection Plan," *Budapest Business Journal*, September 12, 2011, available at: www.bbj.hu/economy/pm-orban-unveils-national-protection-plan_60167.

⁵ "Suez to go to Vienna court over lost Hungary contract," *Budapest Business Journal*, January 27, 2011, available at: www.bbj.hu/business/suez-to-go-to-vienna-court-over-lost-hungary-contract_55699.

The Government is also delivering mixed messages to foreign firms in its institutional framework for investment promotion. On January 1, 2011, the Hungarian Investment and Trade Agency (HITA) replaced ITD Hungary Zrt., which used to operate as the Government's investment and trade development agency between 1993 and 2010, overseeing most of the country's successes as a front-runner in investment promotion. Investors have had to adjust to a new, less experienced team, which took over only some of the ITD employees, and on an ad-hoc basis. That could well disrupt various services based on long-term stability, such as aftercare.

HITA took over investment promotion at a difficult period of Hungary's external economic relations. Since 2010, the country has adopted a new Constitution and various key laws that provoked a debate both in Hungary and abroad about their compatibility with the rule of the law and democracy. Critics of Hungarian legislation have insisted that many of the legal instruments adopted in a revolutionary zeal were incompatible with Hungary's international democratic commitments.

This *Profile* does not take a position in the international debate on the changes mentioned above, as the purely political angle of the problematique is outside its scope. It notes only that Hungary's image has been affected negatively, and in the area of country image, perceptions often equal reality.

Conclusions

Hungary is still a very competitive location for many MNEs, as evidenced by the high level of inward FDI stock and the recent expansion of some of the foreign affiliates located there. However, it faces an emerging image problem, which at the end could slow down many otherwise highly profitable projects. For that reason, it needs to regain its positive image if it wishes to remain a magnet for FDI within its own region. That recovery of the lost positive image will by default be a long and painful process. This is so because reputation can be lost quickly, but to recover it takes time. In the Hungarian case, the Government and HITA have to convince investors that legal stability and rule of the law have now been irrevocably re-established. That re-establishment can be proven only by prompt actions, including a quick phasing out of the windfall taxes, a prompt treatment of investor-state disputes (that will inevitably follow from the current situation) and in the general policy framework of the country, guarantees of the Hungarian Government to international partners as regards the respect for international legal norms.

Once guarantees are provided to investors and foreign partners, HITA can try to embark on a sinuous road of new image building for Hungary, and once image building is successful, it can envisage investment attraction activities. In the meantime, it needs to strengthen its investor services (especially aftercare services) and policy advocacy (the latter is naturally weak in a newly established institution).

These are daunting tasks that will probably get results only in the long term. In the meantime, Hungary's investment potential, which is still very strong, risks being unfulfilled, especially in comparison with other new EU member economies that have not faced similar political problems since 2010.

Additional readings

Antalóczy, Katalin, Magdolna Sass and Miklós Szanyi, “Policies for attracting foreign direct investment and enhancing its spillovers to indigenous firms: The case of Hungary,” in E. Rugraff and Michael W.Hansen, eds., *Multinational Corporations and Local Firms in Emerging Economies* (Amsterdam: Amsterdam University Press, 2011), pp. 181–209.

Bélyácz, Iván and Mónika Kuti, “The role of external debt in the international investment position in Hungary,” Working Paper 03/2011, School on Local Development, University of Trento, Italy, available at: www.unitn.it/en/sld/11701/working-papers.

Czakó, Erzsebet, “Characterizing the patterns of inward and emerging outward FDI in Hungary,” in Louis Brennan, ed., *The Emergence of Southern Multinationals: Their Impact on Europe* (Basingstoke: Palgrave Macmillan, 2011), pp. 92–113.

Koltay, Jenő, “Multinational companies and labour relations in Hungary: Between home country–host country effects and global tendencies,” Discussion Papers of the Institute of Economics, Hungarian Academy of Sciences, MT-DP 2010/15, available at: <http://econ.core.hu/file/download/mtdp/MTDP1015.pdf>, pp. 1–22.

Useful websites

For FDI incentives, Hungary: <http://www.hita.hu/Content.aspx?ContentID=1ffac861-6d88-4135-b5ee-7c5f3c9e8b5d>

For FDI statistics: Hungarian National Bank, Hungary, available at: http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef

For the Hungarian Investment and Trade Agency, Hungary: <http://www.hita.hu/>

Statistical annex

Annex table 1. Hungary: inward FDI stock, 2000 and 2011

(US\$ billion and percentage of gross domestic product (GDP))

Economy	2000	2011	2000	2011
	US\$ billion		Percentage of GDP	
Hungary	23	84	48	60
Memorandum: other new EU member countries from Central and Eastern Europe				
Poland	34	198	20	38
Czech Republic	22	125	38	58
Romania	7	70	19	38
Slovakia	5	51	23	53
Bulgaria	3	48	21	89
Estonia	3	17	47	75
Slovenia	3	15	15	31
Lithuania	2	14	20	33
Latvia	2	12	27	43

Source: UNCTAD, FDI/TNC database, available at: <http://unctadstat.unctad.org>.

Note: Data exclude FDI in special purpose entities. Comparator countries are listed by the order of their inward FDI stock in 2011.

Annex table 2. Hungary: inward FDI flows, 2001–2011
(US\$ billion)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	3.9	3.0	2.1	4.3	7.7	6.8	4.0	6.3	2.0	2.3	4.7
Memorandum: other new EU member countries from Central and Eastern Europe											
Poland	5.7	4.1	4.6	12.9	10.3	19.6	23.6	14.9	12.9	8.9	15.1
Czech Republic	5.6	8.5	2.1	5.0	11.7	5.5	10.4	6.5	2.9	6.1	5.4
Romania	1.2	1.1	2.2	6.4	6.5	11.4	9.9	13.9	4.8	2.9	2.7
Slovakia	1.6	4.1	2.2	3.0	2.4	4.7	3.6	4.7	-0.0	0.5	2.1
Bulgaria	0.8	0.9	2.1	3.4	3.9	7.8	12.4	9.9	3.4	1.6	1.9
Estonia	0.5	0.3	0.9	1.0	2.9	1.8	2.7	1.7	1.8	1.5	0.3
Slovenia	0.4	1.6	0.3	0.8	0.6	0.6	1.5	1.9	-0.7	0.4	1.0
Lithuania	0.4	0.7	0.2	0.8	1.0	1.8	2.0	2.0	0.1	0.8	1.2
Latvia	0.1	0.3	0.3	0.6	0.7	1.7	2.3	1.3	0.1	0.4	1.6

Source: UNCTAD, FDI/TNC database, available at: <http://unctadstat.unctad.org>.

Note: Data exclude FDI in special purpose entities. Comparator countries are listed by the order of their inward FDI stock in 2011.

Annex table 2a. Hungary: ratio of inward FDI flows to gross domestic capital formation
(Per cent)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	32.1	19.4	11.4	18.5	30.4	27.7	13.4	19.0	7.6	9.1	20.0
Memorandum: other new EU member countries from Central and Eastern Europe											
Poland	14.5	11.1	11.6	28.1	18.6	29.2	25.7	12.6	14.1	9.7	14.5
Czech Republic	32.4	40.7	8.6	17.5	37.5	15.4	23.7	12.4	6.8	15.1	10.5
Romania	13.9	11.6	17.2	39.0	27.6	36.2	19.3	21.3	11.7	8.3	5.7
Slovakia	26.2	61.5	26.2	29.9	19.1	31.7	18.2	20.0	- 0.0	3.0	10.0
Bulgaria	31.9	31.6	53.2	66.0	52.7	85.1	102.6	56.6	28.5	16.9	16.7
Estonia	32.7	13.3	29.9	25.8	64.3	29.7	36.5	25.6	44.3	41.9	5.4
Slovenia	7.3	30.4	4.4	9.8	6.5	6.2	11.5	12.4	- 5.5	3.4	10.3
Lithuania	18.2	25.2	4.6	15.4	17.4	23.9	18.2	16.3	1.0	12.9	16.2
Latvia	6.4	11.4	11.2	16.8	14.4	25.6	24.0	12.8	1.7	8.8	24.7

Source: UNCTAD, FDI/TNC database, available at: <http://unctadstat.unctad.org>.

Notes: Data exclude FDI in special purpose entities. Comparator countries are listed by the order of their inward FDI stock in 2011.

Annex table 3. Hungary: sectoral distribution of inward FDI stock, 2000, 2009

(US\$ million)

Sector / industry	2000	2009
All sectors / industries	22,892	98,176
Primary	255	963
Agriculture, forestry, and fishing	185	534
Mining, quarrying and petroleum	70	429
Secondary	11,019	29,856
Food, beverages and tobacco	1,615	2,575
Textile and leather	727	3,884
Wood, pulp, paper and publishing	483	1,429
Coke, refined petroleum and nuclear fuel	2	1,991
Chemicals	1,097	2,592
Rubber and plastic	405	1,205
Other non-metallic minerals	522	2,003
Metals	442	1,665
Machinery and equipment n.e.c.	423	1,366
Electrical and optical equipment	2,068	4,212
Transport equipment	1,815	4,889
Furniture and manufacturing n.e.c.	62	188
Construction	299	882
Services	11,417	65,178
Electricity, gas and water	1,465	4,472
Wholesale, retail trade and repair	2,134	13,491
Hotels and restaurants	299	580
Transport and telecom	3,800	8,546
Financial intermediation	2,330	10,066
Real estate	978	8,990
Computer services	136	681
Business services	1,428	221,924
Other services	253	631
Acquisition of real estate	281	2,179
Unspecified other industries	21	0

Source: based on data from the National Bank of Hungary. http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef.

Note: data converted using the IMF exchange rate of 31, December 2000: USD 1= HUF 221.73, and of 31 December 2009: USD 1= HUF 188.07.

Annex table 4. Hungary: geographical distribution of inward FDI stock, 2000–2009

(US\$ million)

Region / economy	2000	2009
World	22,892	98,176
Developed economies	20,294	78,728
Europe	18,320	72,880
European Union ^a	17,641	69,339
Austria	2,042	13,486
Belgium	485	2,991
Cyprus	166	2,749
Denmark	81	628
Finland	239	1,224
France	1,270	5,075
Germany	8,604	21,634
Ireland	182	847
Luxembourg	253	5,560
Netherlands	3,358	17,970
Sweden	223	684
Spain	37	1,402
United Kingdom	189	1,598
Other Europe	442	3,541
Liechtenstein	83	365
Switzerland	359	3,176
North America	1,822	4,662
Canada	76	498
United States	1,746	4,164
Other developed economies	244	2,475
Japan	152	1,186
Developing economies	267	13,643
Africa	5	180
Asia and Oceania	154	1,689
Latin America and Caribbean	108	10,276
Transition economies	-1 ^b	1,498 ^c
Russian Federation	-48	1,674
International organizations	99	19
Unspecified origin	2,449	4,805

Source: based on data from the National Bank of Hungary http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef.

^a Values of FDI stock were negative for Greece (2000 and 2009), Ireland (2000), and Italy (2000 and 2009).

^b Values of FDI stock were negative in the case of Albania, Bulgaria, the Czech Republic, the former Yugoslav Republic of Macedonia, and Ukraine.

^c Values of FDI stock were negative in the case of Albania, The Former Yugoslav Republic of Macedonia and Ukraine.

Note: data converted using the IMF exchange rate of 31, December 2000: USD 1= HUF 221.73, and of 31 December 2009: USD 1= HUF 188.07.

Annex table 5. Hungary: Top 10 Hungarian firms with foreign ownership, including foreign affiliates, ranked by sales, 2010

Rank	Company	Share of foreign ownership	Foreign investor with the highest share of ownership	Industry	Sales (million US\$)
1	MOL	64.5%	Dispersed; CEZ (Czech Rep.) (7.3%)	Energy	20,602
2	Audi Hungária	100%	Audi (Germany)	Automotive	6,357
3	Nokia	100%	Nokia Corp.(Finland)	Electronics	4,876
4	GE Hungary	100%	GE (United States)	Electronics	4,865
5	Samsung Electronics	100%	Samsung Electronics (Republic of Korea)	Electronics	4,734
6	Philips Industries	100%	Philips Electronics (Netherlands)	Electronics	3,703
7	E.OnHungaria	100%	E.ON Ruhrgas International (Germany)	Energy	3,258
8	Panrusgáz	90%	E.ON Ruhrgas International (Germany) (50%), Gazprom Export, (Russian Federation (40%))	Energy	2,999
9	Fibria Trading International	48.3%	FibriaCelulose SA (Brazil)	Wholesale trade (paper products)	2,979
10	Magyar Telekom	78.37%	Deutsche Telekom (Germany) (59.21%)	Telecommunications	2,922

Source: HVG (Hungarian economic weekly), October 8, 2011; WebPages and balance sheets of the companies.

Note: The exchange rate used is the IMF rate of 31, December 2010: USD 1=208.65 HUF.

MOL is majority foreign-owned but not foreign-controlled (see the text for explanation).

Annex table 5a. Hungary: largest non-financial firms with foreign ownership in the economy, including foreign affiliates, ranked by own capital, 2010

Rank	Name	Foreign parent company	Industry	Own capital of the Hungarian affiliate (US\$ million)
1	MOL	n.a.	Energy	9,463
2	Audi Hungaria Motor Ltd.	Audi (Germany)	Car production	6,965
3	M-Telekom	Deutsche Telekom (Germany)	Telecommunications	2,547
4	Magyar VillamosMűvek	n.a.	Energy	2,502
5	HumantradeTeva Hungary	Teva (Israel)	Pharmaceuticals	2,171
6	GE Hungary	GE (USA)	Electronics	2,111
7	Richter Gedeon	n.a.	Pharmaceuticals	2,096
8	E.OnHungaria	E.ON Ruhrgas International (Germany)	Energy	1,681
9	Tesco Global	Tesco (United Kingdom)	Retail	1,281
10	MAVIR	n.a.	Energy	1,278

Source: Figyelő TOP 200 (an annual special issue of the Hungarian economic weekly *Figyelő*).

Note: The exchange rate used is the IMF rate of 31, December 2010: USD 1=208.65 HUF.

MOL and Richter Gedeon are majority foreign-owned but not foreign-controlled (see text for explanation)

Annex table 5b. Hungary: Top 10 Hungarian firms, ranked by exports, 2010

Rank	Company	Share of foreign ownership	Foreign investor with the highest share of ownership	Industry	Exports (million US\$)	Export/sales (%)
1	MOL	64.5%	Dispersed, CEZ (Czech Rep.) (7.3%)	Energy	14,677	71.2
2	Audi Hungária	100%	Audi (Germany)	Automotive	6,333	99.6
3	GE Hungary	100%	GE (United States)	Electronics	4,772	98.1
4	Nokia	100%	Nokia Corp.(Finland)	Electronics	4,726	96.9
5	Samsung Electronics	100%	Samsung Electronics (Republic of Korea)	Electronics	4,392	92.8
6	Philips Industries	100%	Philips Electronics (Netherlands)	Electronics	3,485	94.1
7	Fibria Trading International	48.3%	FibriaCelulose SA (Brazil)	Wholesale trade (paper products)	2,979	100.0
8	Flextronics International	99.96%	Flextronics (Singapore)	Electronics	2,622	98.2
9	Magyar Suzuki	99.98%	Suzuki Motor Corporation (Japan)	Automotive	1,870	91.2
10	ChinoinGyógyszer - ésVegyészetiTermékekGyáraZrt.	Indirectly 100%	Sanofi-Aventis (France) (100%)	Pharmaceutical products	1,289	83.4

Source: HVG (Hungarian economic weekly), October 8, 2011; webpages and balance sheets of the companies.

Note: The exchange rate used is the IMF rate of 31, December 2010: USD 1=208.65 HUF.

Annex table 6. Hungary: main M & A deals, by inward investing firm, 2009–November 2011

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/announced transaction value (US million)
2011	YantaiWanhua Synthesize Group	China	BorsodChemZrt.	Chemicals	58.0	1,700.5
2011	Advent International Corp.	United States	Provimi Pet Food Zrt.	Animal food	100.0	264.8
2011	Cinema City International NV	Netherlands	Palace Cinemas Hungary Kft.	Movie theatres	100.0	37.7
2011	Medort SA	Poland	Rehab-Trade Kft.	Medical instruments	100.0	7.2
2011	Magyar Telekom (Deutsche Telekom Group)	Germany	DatenKontorKft.	Computer services	100.0	6.3
2010	YantaiWanhua Synthesize Group	China	BorsodChemZrt.	Chemicals	38.0	190.4
2010	Allianz	Germany	Allee Center Kft.	Life insurance	50.0	145.0
2010	EBRD	United Kingdom	IberdrolaRenovablesMagyarországKft.	Electricity	25.0	72.5
2010	Mid Europa Partners	United Kingdom	InvitelTávközlésiZrt.	Telecom	35.4	24.7
2010	FHB Kereskedelmi Bank Kft. (VCP Finanz Group)	Hungary	Allianz HungáriaBiztosító Kft.	Insurance	100.0	14.7
2010	SBI European Fund	Japan	CIG PannóniaÉletbiztosítóZrt.	Insurance	10.0	12.6
2010	Asseco Slovakia	Slovakia	StatlogicsZrt.	Software	70.0	11.6
2009	Surgutneftegaz	Russian Federation	MOL Nyrt.	Oil and gas	21.2	1,851.6
2009	Mid Europa Partners	United Kingdom	InvitelTávközlésiZrt.	Telecom	64.6	10.8
2009	Magyar Telekom (Deutsche Telekom Group)	Germany	KFKI-DirektKft.	Computer services	100.0	1.8

Source: Authors' calculations, based on UNCTAD, cross-border M&A database.

Annex table 7. Hungary: main greenfield projects, by inward investing firm, 2009–November 2011

Year	Investing company	Home economy	Industry	Key business function	Estimated number of jobs created	Estimated/announced investment value (US\$ million)
2011	General Motors	United States	Automotive	Manufacturing	800	670
2011	VerbioVereinigteBioEnergie	Germany	Alternative/renewable energy	Manufacturing	282	137
2011	KBC Group NV	Belgium	Financial services	ICT and Internet infrastructure	218	125
2010	Volkswagen	Germany	Automotive	Manufacturing	1,800	1 205
2010	Advanced Power AG	Switzerland	Coal, oil and natural gas	Electricity	102	717
2010	General Motors	United States	Engines and turbines	Manufacturing	1,000	673
2010	Alpiq (ATEL)	Switzerland	Coal, oil and natural gas	Electricity	71	503
2010	BNP Paribas	France	Real estate	Construction	3,000	485
2010	CEZ Group	Czech Republic	Coal, oil and natural gas	Electricity	533	240
2010	Atenor Group	Belgium	Real estate	Construction	2,576	240
2010	Givaudan	Switzerland	Food and tobacco	Manufacturing	1,582	167
2010	Ethanol Europe	Ireland	Alternative/renewable energy	Manufacturing	77	142
2010	In Time	Germany	Transportation	Logistics, distribution and transportation	74	130
2010	RaluLogistika	Croatia	Transportation	Logistics, distribution and transportation	74	130
2010	Hankook Tire	Republic of Korea	Rubber	Manufacturing	450	108
2009	Vorskla Steel	Ukraine	Metals	Manufacturing	3,000	927
2009	GDF SUEZ	France	Coal, oil and natural gas	Electricity	44	308
2009	Ascent Resources	United Kingdom	Coal, oil and natural gas	Extraction	215	294
2009	Gazprom	Russian Federation	Coal, oil and natural gas	Extraction	215	294
2009	ING Groep	Netherlands	Real estate	Construction	3,000	293
2009	AES Corp.	United States	Coal, oil and natural gas	Electricity	533	197
2009	Gebrüder Weiss	Austria	Transportation	Logistics, distribution and transportation	74	130
2009	LEGO	Denmark	Consumer products	Manufacturing	1,300	119

2009	King Long United Auto Moto Industry	China	Automotive	Manufacturing	663	117
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Source: The authors, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: Data collection closed at 23 November 2011.