

## Hungary: Outward FDI and its policy context, 2012

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*The period of significant growth of outward foreign direct investment (OFDI) from Hungary was interrupted in recent years. The global financial and economic crisis has brought considerable changes with effects on Hungary's OFDI. The OFDI stock declined in 2010 after its impressive growth throughout 2000–2009, and the decline in OFDI flows that began in 2007 continued through 2010. However, recent data indicate a rise in both OFDI stock and flows in 2011. Hungary's OFDI stock of US\$ 21 billion in 2010 continued to be highly concentrated in terms of the investing companies. These large multinational enterprises (MNEs) face the challenge of an international environment that is increasingly critical to their operations. Government policy and the institutional framework have changed to a great extent since 2010. In particular, the extent of state ownership in the most important outward investors has grown. In the policy field, the declared priorities focus on OFDI in new geographic areas and the promotion of the internationalization of small and medium-sized enterprises (SMEs). The main question for the future of Hungarian OFDI remains that of how its sustainability can be assured, especially in terms of broadening the company base of OFDI.*

### Trends and developments

The growth of Hungary's OFDI accelerated after 2000, making Hungary a relatively important outward investor among the new European Union (EU) members, both in terms of volume and of relative importance of OFDI for the country's economy. Taken as a whole, the first decade of the 2000s can be characterized as one of spectacular growth of OFDI from Hungary.<sup>1</sup> With an OFDI stock of US\$ 21 billion in 2010 and US\$ 24 billion in 2011, Hungary is among the largest source countries of FDI among the new EU member countries, just behind Poland, with a population four times larger than that of Hungary (annex table 1). However, the global crisis and economic slowdown did not leave Hungarian OFDI unaffected. The impact of the crisis was aggravated by the internal problems of the Hungarian economy, mainly due to large public and private debt, fiscal problems, low employment rate, and low GDP growth. This is reflected in the slowdown of outward flows during 2008–2010.

### *Country-level developments*

OFDI from Hungary is quite sizeable in comparison with that from other former transition economies that are now members of the European Union. However, it lags behind the OFDI of older EU-member economies. In 2010 as well as 2011, Hungary's OFDI stock was smaller than that of Greece and Portugal, as well as Austria (among the old EU members), although the percentage ratio of OFDI stock relative to GDP was lower for Greece than for Hungary (annex table 1). While Hungary was ahead of the Czech Republic and behind Poland (among the larger of the new EU member countries) in terms of the OFDI stock, it was ahead of both economies as regards OFDI stock relative to GDP. On the other

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<sup>1</sup> *Ibid.*

hand, both Hungary's stock of OFDI and its ratio to GDP in 2010 and 2011 were higher than those of the smaller new EU members Slovenia and Slovakia (annex table 1). While the OFDI stock of Hungary exceeded that of Estonia, the ratio of OFDI to GDP was higher in the latter. Hungary's inward FDI remains much higher than its OFDI stock, but the ratio of outward to inward FDI stock has risen steadily, reaching 22.8% in 2009 before declining slightly (to 22.6%) in 2010 and rising again (to 28.2%) in 2011 (annex table 1a).

OFDI flows reached their peak in 2006, at US\$ 3.9 billion (annex table 2). A declining trend can be observed since then, with a particularly large fall in 2010 when the value of outflows (US\$ 1.6 billion) amounted to only 60% of that in 2009. However, Hungary is fairly similar in that respect to the comparator economies considered, all of which have seen a decline in their OFDI flows after 2007, although in a few cases (Austria, the Czech Republic), flows began to recover in 2010. Data for 2011 indicate a substantial rise in flows of Hungary's OFDI, which surpassed the previous peak of 2006 (annex table 2). However, according to the estimation of the Hungarian National Bank based on data for the first three quarters of 2011, more than 90% of the OFDI was related to so-called "transit capital".<sup>1</sup>

The sectoral composition of outward FDI from Hungary changed considerably between 2000 and 2010. The most obvious trend is the rising importance of the manufacturing sector, in which OFDI stock rose from US\$ 166 million in 2000 to US\$ 4.5 billion in 2010 (annex table 3), and which by 2010 accounted for 22% of total OFDI stock, a lower share than in 2008 when it was 38% but much higher than that in 2000 when it was only 13%. Within manufacturing, coke, refined petroleum and nuclear fuel was the leading industry in 2010, with a 9% share in total OFDI (compared with 17% in 2008), followed by chemicals with 7% (compared with 2% in 2008),<sup>2</sup> (annex table 3). These two industries have increased their shares considerably in recent years, as compared with 2000. The share of services in total OFDI stock dropped from 80% in 2000 to 53% in 2008, but rose slightly to 55% in 2010. Financial intermediation stands out, along with business services, as the largest recipient in the services sector. However, the share of business services in total OFDI stock in services rose noticeably during 2000–2010 (growing from 11% in 2000 to 45% in 2010), while that of financial intermediation declined from 57% in 2000 to 29% in 2010.

The geographical composition of OFDI by host economy also changed markedly in the 2000s. European Union member states are not the dominant hosts to Hungarian investments any more (annex table 4.) This is mainly due to the increase in the share of other European economies and the emergence of faraway destinations – the latter mainly due to one-off large transactions in individual countries, such as in the Republic of Korea and Singapore in Asia or in the Netherlands Antilles in Central America. Still, the dominant host economies with more than half of Hungarian FDI abroad are the neighboring and geographically close countries at a similar or lower level of development, such as Croatia (with 17% of Hungary's OFDI stock in 2010), Slovakia (10%), Bulgaria (6%), Romania and Ukraine (3% each), Czech Republic, Poland, Russia, Serbia, and Macedonia (2% each).<sup>3</sup> In that respect, Hungary is similar to other smaller emerging European economies, i.e., outward FDI is mainly located in host economies

<sup>1</sup> See the quarterly balance-of- payments data on the website of the Hungarian National Bank, available at: [http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Statisztika/mnben\\_statkozlemeny/mnben\\_fizetesi\\_merleg/CA11Q4\\_EN.pdf](http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Statisztika/mnben_statkozlemeny/mnben_fizetesi_merleg/CA11Q4_EN.pdf) and [http://english.mnb.hu/Statisztika/data-and-information/mnben\\_statisztikai\\_idosorok/mnben\\_elv\\_external\\_trade/mnben\\_kozetlen\\_tokebef](http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef)

<sup>2</sup> Shares for 2000 and 2010 cited in this paragraph are based on the data in annex table 3 and those for 2008 are from Sass and Kalotay, *op. cit.*, annex table 3.

<sup>3</sup> Percentages are based on data in annex table 4.

that are in the neighborhood of the country. On the other hand, economies acting as “tax optimization sandwiches”<sup>1</sup> such as Cyprus, Switzerland, Luxemburg, and the Netherlands, also figure, in that order, among the relatively important destinations, with a combined share of more than one fifth of total OFDI stock from Hungary in 2010.

### *The corporate players*

Hungarian OFDI is highly concentrated in terms of the number of investing companies, as described in detail in the previous *Columbia FDI Profile* of Outward FDI from Hungary.<sup>2</sup> While there are thousands of Hungarian firms investing directly abroad (the estimated number in 2008 was 7,000), a small number of them are responsible for the overwhelming majority of the OFDI stock: in 2008, the country’s five largest MNEs (MOL, OTP Bank, Magyar Telecom, MKB Bank, Gedeon Richter) were estimated to have accounted for at least 65% of the OFDI stock. In 2010, there was one newcomer, KÉSZ, in the list of the top investors (annex table 5);<sup>3</sup> however, the most important companies remained the same. One of them, MOL, an oil and gas company that heads the list, experienced a significant change in its ownership structure in May 2011 when the Hungarian Government acquired more than a fifth of its shares,<sup>4</sup> which invites a closer look at ownership changes in that company as well as the extent and nature of state ownership in Hungarian MNEs (see section below on “Special issues”).

The largest cross-border M&As abroad by Hungarian MNEs in 2010 were led by two transactions by Gedeon Richter in the pharmaceutical industry (annex table 6). They were both much larger in size than the largest cross-border deals in 2009 and 2010. Investments in air transport (by Wizzair) and in pharmaceuticals (by Omninvest, Nan Genex and Richter Gedeon) ranked at the top of the largest greenfield FDI projects undertaken by Hungarian MNEs in 2010 (annex table 7).

For companies engaged in OFDI from Hungary, the primary motive of investing abroad is market-seeking, similarly to that of MNEs from other former transition economies.<sup>5</sup> However, there are cases of efficiency-seeking investment, e.g., in the case of Videoton in the electronics sector, which has two plants in countries with considerably lower wages compared to Hungary: Bulgaria and Ukraine. The resource-seeking motive is also present in the case of certain investments realized by MOL, the oil and gas company, mainly in faraway locations, such as Iraq, Oman and Pakistan.

### Special issues

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<sup>1</sup> On the “old” and “new” “Dutch sandwiches”, see George Kahale, “The new Dutch sandwich: The issue of treaty abuse”, *Columbia FDI Perspectives*, no. 48, October 10, 2011, available at: <http://www.vcc.columbia.edu/content/new-dutch-sandwich-issue-treaty-abuse>

<sup>2</sup> See Sass and Kalotay, *op. cit.*

<sup>3</sup> See Sass and Kalotay, *op. cit.*

<sup>4</sup> See e.g. <http://uk.reuters.com/article/2011/05/24/mol-surgut-idUKTST00206520110524>

<sup>5</sup> See e.g. M. Svetlicic, A. Jaklic and A. Burger, “Internationalization of small and medium-sized enterprises from selected Central European countries”, in *Eastern European Economics*, vol. 45, No. 4 (July–August 2007), pp. 36–65. See also, for Hungary: K. Antalóczy and A. Éltető, A., “Magyar vállalatok nemzetköziesedése: indítékok, hatások, problémák (Internationalization of Hungarian companies: motives, impacts and problems)”, *Közgazdasági Szemle*, vol. XLIX. 2, pp. 158–172.

The acquisition of part ownership by the Hungarian Government in the oil and gas company MOL, which can be considered by far the most important outward investor from Hungary,<sup>1</sup> draws attention to the issue of state ownership of Hungarian MNEs. Among the top Hungarian outward investors, besides MOL, there are other MNEs with some limited state ownership. In OTP, the most important MNE in financial services, the share of state ownership is negligible (0.4% at end-2011).<sup>2</sup> However, in Richter, an MNE operating in the pharmaceutical industry, the original 25% state share increased further last year, by 2.7 %, due to the nationalization of the private pension funds that held the latter share.<sup>3</sup> That same nationalization measure led to an increase in state ownership in MOL; together with the aforementioned acquisition, the extent of state ownership in the gas and oil company grew to 23.8% during 2011.<sup>4</sup> Thus, in two of the top five outward investors there is now considerable, though minority, state ownership.<sup>5</sup>

MOL is one of the largest petroleum companies in the East Central European region with an extensive network of foreign affiliates in both upstream and downstream activities. In recent years, the company has been a target of various takeover attempts. A recent case was that by the Austrian oil and gas firm OMV (it already owned a 21.1% share in MOL), which launched a series of hostile takeover bids in 2007–2008. The effort was abandoned when the European Commission conveyed its disapproval to OMV.<sup>6</sup> However, OMV then sold its share in MOL to the Russian Surgutneftegas in March 2009, an act seen as unfriendly by both the MOL board and the Hungarian authorities.<sup>7</sup> In May 2011, the Government of Hungary purchased the MOL shares from the Russian company for EUR 1.88 billion.<sup>8</sup>

Another special issue emerging with respect to FDI from Hungary relates to that of multinational enterprises as the “Janus face of globalization”<sup>9</sup> that has been observed and analyzed in both academic and policy papers for many years. In the 1990s, MNEs’ foreign affiliates were considered beneficial for the host country, and their positive impacts were emphasized during the privatization of state-owned enterprises and the transition of former centrally-planned economies to market-based ones.<sup>10</sup> As a sign of a changing trend, several of the privatization deals of public utilities have been questioned by host-

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<sup>1</sup> Magdolna Sass and Olivér Kovács, “Hungary’s global players: a strong presence in the neighborhood in 2009,” in Karl P. Sauvart, Vishwas P. Govitrikar and Ken Davies (eds.), *MNEs from Emerging Markets: New Players in the World FDI Market* (New York: Vale Columbia Center, 2011), pp. 119–142, available at: <http://www.vcc.columbia.edu/books>

<sup>2</sup> See [https://www.otpbank.hu/portal/en/IR\\_Ownership\\_structure](https://www.otpbank.hu/portal/en/IR_Ownership_structure)

<sup>3</sup> See

[http://www.richter.hu/EN/Archive/Investors%20and%20media/Annual%20reports,%20presentations/Richter20Annual20report202011\[1\].pdf](http://www.richter.hu/EN/Archive/Investors%20and%20media/Annual%20reports,%20presentations/Richter20Annual20report202011[1].pdf)

<sup>4</sup> See <http://ir.mol.hu/en/about-mol/ownershipbrstructure/>

<sup>5</sup> In the case of MOL, the State had special rights already. On the one hand, shareholders’ rights are limited: none of them can exercise voting rights of more than 10%, even if they own more shares than that. On the other hand, there is the voting preference share owned by the Hungarian Government, which entitles it to veto certain strategic decisions, including those affecting the ownership changes in the company.

<sup>6</sup> See Sass and Kalotay, *op. cit.*

<sup>7</sup> Sass and Kovács, *op. cit.*

<sup>8</sup> See <http://www.reuters.com/article/2011/05/24/mol-idUSLDE74N1FH20110524>

<sup>9</sup> Lorraine Eden and Stefanie Lenway, “Introduction to the symposium Multinationals: The Janus Face of Globalization”, *Journal of International Business Studies*, vol. 32, No. 3 (2001), pp. 383–400, and Mats Forsgren, *Theories of the Multinational Firm: A Multidimensional Creature in the Global Economy* (Cheltenham, and Northampton, MA: Edward Elgar), 2008.

<sup>10</sup> See, for more details on this issue, M. Szanyi, “An FDI-based development model for Hungary: New challenges?”, Working Paper No. 141, Institute for World Economics of the Hungarian Academy of Sciences, , Budapest, December 2003.



country governments in recent years.<sup>1</sup> The pendulum now shows signs of moving in the other direction: Recently, governments have taken more liberty to tackle what they consider to be the negative aspects of FDI. For example, since 2010 extra taxes have been imposed that mainly affect foreign affiliates in Hungary, apparently to ensure that these affiliates pay a fairer share of total taxes.<sup>2</sup> The swing of the pendulum affects not only foreign MNEs' affiliates in Hungary but also some Hungarian-headquartered MNEs' affiliates in other countries. An example with respect to the latter is the MOL case in Croatia in 2011, where MOL's chairperson was accused of bribery in its Croatian affiliate acquisition deal.<sup>3</sup> The accusation came to light in parallel with the increase of Hungarian state ownership in MOL and after MOL's attempt to increase its shares in INA, the Croatian oil and gas company.<sup>4</sup> This case also throws some light on some emerging economies' approach to dealing with MNEs in both their home and host countries. One evolving and disputed issue is the role of the government in intervening in, and shaping, investment programs of MNEs for the benefit of the nation.<sup>5</sup>

### Effects of the recent global crises

The global financial and economic crises of 2008–2009 impacted Hungarian investments abroad. As in other economies, the slowdown in GDP growth and high budget deficits affected the Hungarian economy and influenced Hungarian economic policies,<sup>6</sup> with implications for the ability of firms to invest abroad. Hungary was among the worst performing countries in the region in terms of GDP growth during the crisis years.<sup>7</sup> Moreover, Hungary's fiscal policy became contractionary well before the crisis

<sup>1</sup> See, for example, "Foreign investors in Hungary: less welcome. Are populist politicians turning on foreign capital?", *The Economist*, November 5, 2009, available at <http://www.economist.com/node/14807099>

<sup>2</sup> In 2010, extra taxes were imposed on the Hungarian telecom, energy and trade companies for three years (*Budapest Business Journal*, October 13, 2010, available at: [http://www.bbj.hu/economy/hungary-government-to-levy-extra-tax-on-telecom-energy-and-trade-companies-for-three-years---pm-orban\\_54512](http://www.bbj.hu/economy/hungary-government-to-levy-extra-tax-on-telecom-energy-and-trade-companies-for-three-years---pm-orban_54512)). In December 2010, a letter was sent to Brussels by 12 foreign affiliates in Hungary complaining about the extra taxes and considering them as discrimination against foreign-owned companies (*Budapest Business Journal*, January 4, 2011, available at: [http://www.bbj.hu/eu/official-rejects-notion-crisis-taxes-discriminate-against-foreign-owned-companies\\_55377](http://www.bbj.hu/eu/official-rejects-notion-crisis-taxes-discriminate-against-foreign-owned-companies_55377)). In March 2011, extra financial pressures were added to the ones introduced in 2007 for pharmaceutical manufacturers and wholesalers to manage the overspent reimbursement budget (*The Economist*, March 9, 2011, available at:

[http://viewswire.eiu.com/index.asp?layout=ib3Article&article\\_id=1537865538&pubtypeid=1152462500&country\\_id=171000171&page\\_title=&rf=0](http://viewswire.eiu.com/index.asp?layout=ib3Article&article_id=1537865538&pubtypeid=1152462500&country_id=171000171&page_title=&rf=0)). Tesco Hungary, the retail industry leader and the biggest employer in Hungary, has been subject to industrial disputes over job descriptions and compensations, and regular store quality inspections. (*Eurofound*, March, 2011, available at: [http://www.eurofound.europa.eu/eiro/2010/10/articles/hu1010021i.htm?utm\\_source=EIRO&utm\\_medium=RSS&utm\\_campaign=RSS](http://www.eurofound.europa.eu/eiro/2010/10/articles/hu1010021i.htm?utm_source=EIRO&utm_medium=RSS&utm_campaign=RSS)).

<sup>3</sup> See, for example, Zoran Radosavijevic, "Croatia says MOL CEO is suspect in bribe case," Reuters, available at: <http://www.reuters.com/article/2011/11/10/croatia-sanader-mol-idUSLDE7A90JJ20111110>

<sup>4</sup> The Hungarian state MOL share purchase was announced at the end of May 2011 (see: <http://ir.mol.hu/en/hungarian-state-and-surgutneftgas-reached-agreement-mol-shares/>) and the accusations in late June, 2011 (see: [http://www.xpatloop.com/news/hungarys\\_mol\\_accused\\_of\\_bribery\\_in\\_ina\\_deal](http://www.xpatloop.com/news/hungarys_mol_accused_of_bribery_in_ina_deal)).

<sup>5</sup> Kalman Kalotay, "Russian transnationals and international investment paradigms", in *Research in International Business and Finance*, vol. 22, No. 2 (June 2008), pp. 85–107.

<sup>6</sup> See details of the economic policy changes, for example, in the Convergence program of Hungary, at: [http://ec.europa.eu/europe2020/pdf/nrp/cp\\_hungary\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nrp/cp_hungary_en.pdf); and the introduction of extra taxes affecting mainly domestic market oriented affiliates of large MNEs in the energy and retail trade sectors, criticized by experts, at: <http://euobserver.com/9/31055>.

<sup>7</sup> See, for example, Włodzimierz Dymarski, "Differential impact of global crisis on CEE economies." Paper presented at the 16th Workshop on Alternative Economic Policy in Europe University of Crete, Rethymnon, 24-26 September 2010, available at: [http://www2.euromemorandum.eu/uploads/wg2\\_dymarski\\_differential\\_impact\\_of\\_global\\_crisis\\_on\\_cee\\_economies.pdf](http://www2.euromemorandum.eu/uploads/wg2_dymarski_differential_impact_of_global_crisis_on_cee_economies.pdf)

years, and it continued to be so during the crisis, due to a high and unsustainable fiscal deficit.<sup>1</sup> These factors together resulted in a large fall in domestic demand with adverse effects on the position of Hungarian enterprises and their ability to invest abroad.

The negative impact of the crises, at both host- and home-country ends, is reflected in the slowdown of Hungarian MNE activity abroad and FDI outflows after 2007 (see annex table 2). There is anecdotal evidence of the postponement of projects,<sup>2</sup> and evidence that the repatriation of profits on OFDI increased,<sup>3</sup> presumably in order to strengthen the domestic position of the investing companies. According to quarterly data on Hungary's balance of payments during 2009 and 2010,<sup>4</sup> while new (equity) investments abroad were more or less sustained even during the crisis years, additional investments by companies already present abroad in the form of reinvested earnings and especially other capital (mainly in the form of credit transactions between Hungarian parent companies and their affiliates abroad) turned negative<sup>5</sup> in the majority of the quarters. Many Hungarian investors have tried to compensate for their domestic losses through the repatriation of profits and taking credits from their foreign affiliates that operated in more favorable business environments compared to Hungary.

### The policy scene

As noted in the previous *Columbia FDI Profile* on outward FDI from Hungary,<sup>6</sup> being an EU member, Hungary pursues policies with respect to OFDI that fall within the framework of the Lisbon Treaty and the treaties concluded by the EU. Policies are influenced as well by bilateral investment treaties (BITs) signed by the Hungarian Government (58 in force in June 2011),<sup>7</sup> covering all major target economies of Hungarian OFDI.<sup>8</sup>

The year 2010 brought changes in the declared national priorities and the institutional framework for OFDI. Promoting outward FDI by Hungarian businesses became one of the declared priorities, mainly because of its positive impact on the balance of payments through repatriated profits.<sup>9</sup>

In 2011, a draft titled "Hungarian External Economic Strategy" was formulated,<sup>10</sup> and a new institute was set up. The Central European region (especially the other Visegrad countries, Czech Republic,

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<sup>1</sup> See footnote 26.

<sup>2</sup> See cases in Sass and Kalotay *op. cit.*

<sup>3</sup> See the quarterly FDI and balance-of-payments data on the website of the Hungarian National Bank, available at: [http://www.mnb.hu/Statisztika/statisztikai-adatok-informaciok/adatok-idosorok/vii-kulkereskedelem/mnbhu\\_fizm\\_20090330](http://www.mnb.hu/Statisztika/statisztikai-adatok-informaciok/adatok-idosorok/vii-kulkereskedelem/mnbhu_fizm_20090330) and [http://english.mnb.hu/Statisztika/data-and-information/mnben\\_statisztikai\\_idosorok/mnben\\_elv\\_external\\_trade/mnben\\_kozetlen\\_tokebef](http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef)

<sup>4</sup> Ibid.

<sup>5</sup> According to the logic of the balance of payments, these are positive numbers in the respective statements of Hungary.

<sup>6</sup> Sass and Kalotay, *op. cit.*

<sup>7</sup> See [http://unctad.org/Sections/dite\\_pcbp/docs/bits\\_hungary.pdf](http://unctad.org/Sections/dite_pcbp/docs/bits_hungary.pdf)

<sup>8</sup> Kalman Kalotay, "The political aspect of foreign direct investment: The case of the Hungarian oil firm MOL," *The Journal of World Investment & Trade*, vol. 11, No. 1 (2010), pp. 79–90.

<sup>9</sup> "Government plans to support FDI of Hungarian businesses," *Budapest Business Journal*, April 18, 2011, available at: [http://www.bbj.hu/economy/govt-plans-to-support-fdi-of-hungarian-businesses\\_57284](http://www.bbj.hu/economy/govt-plans-to-support-fdi-of-hungarian-businesses_57284)

<sup>10</sup> Külgazdasági stratégia, Szakmai vitairat (Foreign Economic Strategy, Ministry of National Economy, Budapest). A draft on the Hungarian foreign economic strategy was published (in Hungarian) in May, 2011, and is available at:

[http://www.kormany.hu/download/1/d7/30000/kulgaszdasagi\\_strategia.pdf](http://www.kormany.hu/download/1/d7/30000/kulgaszdasagi_strategia.pdf) US\$ 1.5–2 billion OFDI flows per annum are projected in the medium term, available at:

[http://www.kormany.hu/download/1/d7/30000/kulgaszdasagi\\_strategia.pdf](http://www.kormany.hu/download/1/d7/30000/kulgaszdasagi_strategia.pdf)

Poland and Slovakia) and fast growing emerging markets (like China) were identified as regional priorities for OFDI. The focus is on supporting the internationalization of Hungarian SMEs. The Hungarian Investment and Trade Agency (HITA), a government agency, commenced its operations to manage and support international trade and investments as of January 1, 2011.<sup>1</sup> HITA took over the tasks of the Hungarian Investment and Trade Development Agency (ITDH), which was previously responsible for promoting inward and outward FDI, exports and SME growth. The scope for independent action differs widely between ITDH (which was a joint stock company) and HITA, which is a government agency, controlled by the Ministry of National Economy. Moreover, the number of staff and the financial means of HITA are both lower than those of ITDH. HITA's priorities are in accordance with the declared aims of the Hungarian Government, namely, creating jobs, developing Hungarian businesses to reach new markets and investment promotion for foreign investors. The published goals and means of HITA<sup>2</sup> signal a third generation of investment promotion, the main characteristics of which are considered to be the targeting of specific industries (or even individual firms) that are deemed a good match for the host country.<sup>3</sup> There are 17 industries named, including automotive, chemical, biotechnology, and logistics industries. Supporting the internationalization of Hungarian SMEs is a priority for HITA's activities.

## Conclusions

The global financial and economic crises and internal problems of the Hungarian economy are the two main factors explaining why the increase of Hungarian OFDI stock came to a halt in 2010. Although OFDI stock as well as flows rose in 2011, the situation remains somewhat uncertain, due to external as well as internal factors. However, Hungary is still among the leading countries in the East and Central European region in terms of outward FDI. Noticeable changes took place in 2011, first in terms of the extent of state ownership in the most important outward-investing enterprises (most importantly, in the petroleum MNE MOL) and, secondly, in the policy scene, where the institutional background and priorities have changed considerably, increasingly favoring the internationalization of SMEs toward new destinations.

## Additional readings

Antalóczy, Katalin and Magdolna Sass, "Emerging multinationals: the case of Hungary". Paper presented at the conference on Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies, Copenhagen Business School, Copenhagen, Denmark, October 9–10, 2008, available at:

<http://www.econ.core.hu/file/download/sass/emerging.ppt#256,1,Emerging%20multinationals:%20the%20case%20of%20Hungary>.

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<sup>1</sup> See [www.hita.hu](http://www.hita.hu)

<sup>2</sup> See in more details at <http://www.hita.hu/Content.aspx?ContentID=acecbc06-9776-4d34-874b-01e7639b61a8>

<sup>3</sup> Vale Columbia Center on Sustainable International Investment and World Association of Investment Promotion Agencies, "Investment promotion agencies and sustainable FDI: Moving toward the fourth generation of investment promotion," Report of the findings of the Survey on FDI and Sustainable Development, New York, June 25, 2010, available at: <http://www.vcc.columbia.edu/content/reports>

Czakó, Erzsébet, “Characterising the patterns of inward and emerging outward FDI in Hungary”, in L. Brennan, ed., *The Emergence of Southern Multinational: Their Impact on Europe* (Basingstoke: Palgrave MacMillan, 2011), pp. 92–113.

Radlo, Mariusz-Jan and Magdolna Sass (2012). “Outward foreign direct investments and emerging multinationals from Central and Eastern Europe: Case of Visegrad countries,” *Eastern European Economics* (April - May), 50 (2), pp. 5-21.

Sass, Magdolna, Katalin Antalóczy and Andrea Elteto (2012). “Emerging multinationals and the role of virtual indirect investors: the case of Hungary,” *Eastern European Economics* (April -May), 50 (2), pp. 41-58.

#### *Useful websites*

For FDI policy and promotion: Hungarian Investment and Trade Agency, Hungary, available at: [www.hita.hu](http://www.hita.hu)

For FDI statistics: Hungarian National Bank, Hungary, available at: [http://english.mnb.hu/Statisztika/data-and-information/mnben\\_statisztikai\\_idosorok](http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok)

## Statistical annex

Annex table 1. Hungary: outward FDI stock, 2000–2011

(US\$ billion and per cent of GDP<sup>a</sup>)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	1.3	1.6	2.2	3.5	6.0	7.8	12.4	17.3	20.1	22.5	20.7	23.8
	(2.7)	(2.9)	(3.2)	(4.2)	(5.9)	(7.1)	(11.0)	(12.6)	(12.9)	(17.5)	(16.0)	(17.0)
Memorandum: comparator economies												
Austria	24.8	28.5	42.5	56.0	69.8	71.8	105.7	148.8	148.7	163.6	169.7	199.3
	(13.0)	(15.0)	(20.6)	(22.2)	(24.2)	(23.7)	(32.8)	(40.0)	(35.9)	(42.9)	(45.1)	(48.0)
Portugal	6.1	22.3	21.3	34.4	43.9	42.0	54.0	67.7	63.0	68.4	64.3	68.1
	(16.9)	(18.5)	(16.2)	(21.3)	(23.8)	(22.0)	(26.8)	(29.3)	(25.0)	(29.3)	(28.1)	(29.0)
Greece	6.1	7.0	9.0	12.3	13.8	13.6	22.4	31.6	37.2	39.4	37.9	42.9
	(4.8)	(5.4)	(6.1)	(6.3)	(6.0)	(5.6)	(8.5)	(10.3)	(10.8)	(12.2)	(12.5)	(14.4)
Poland	1.0	1.2	1.5	2.1	3.4	6.3	14.3	21.2	24.0	29.6	36.9	50.0
	(0.6)	(0.6)	(0.7)	(1.0)	(1.3)	(2.1)	(4.2)	(5.0)	(4.5)	(6.9)	(7.9)	(10.0)
Czech Republic	0.7	1.1	1.5	2.3	3.8	3.6	5.0	8.6	12.5	14.8	15.5	15.5
	(1.3)	(1.8)	(2.0)	(2.5)	(3.4)	(2.9)	(3.5)	(4.9)	(5.8)	(7.8)	(8.1)	(7.2)
Slovenia	0.8	1.0	1.5	2.4	3.0	3.3	4.6	7.2	7.9	7.9	7.6	7.1
	(3.9)	(4.8)	(6.5)	(8.1)	(9.0)	(9.2)	(11.7)	(15.3)	(14.5)	(16.1)	(15.9)	(14.4)
Estonia	0.3	0.4	0.7	1.0	1.4	1.9	3.6	6.2	6.6	6.6	5.8	4.7
	(4.6)	(7.1)	(9.2)	(10.4)	(11.8)	(14.0)	(21.4)	(28.4)	(28.1)	(34.4)	(30.1)	(21.3)
Slovakia	0.4	0.5	0.5	0.8	0.8	0.6	1.3	1.9	3.0	3.7	2.8	4.2
	(1.9)	(2.4)	(2.2)	(2.5)	(2.0)	(1.2)	(2.4)	(2.5)	(3.1)	(4.2)	(3.2)	(4.4)

*Source:* UNCTAD statistical website, UNCTADstat: <http://unctadstat.unctad.org/>

<sup>a</sup> Figures within brackets refer to outward FDI stock as a percentage of GDP.

Annex table 1a. Hungary: outward and inward FDI stock, 1990, 1995, 2000, 2005–2011

	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
Outward FDI stock (US\$ billion)	0.2	0.3	1.3	7.8	12.4	17.3	20.1	22.5	20.7	23.8
Inward FDI stock (US\$ billion)	0.6	11.3	22.9	61.1	80.2	95.5	88.5	98.8	91.9	84.5
Ratio of outward to inward FDI stock (%)	27.9	2.5	5.6	12.6	15.4	18.1	22.7	22.8	22.6	28.2

*Source:* UNCTAD statistical website, UNCTADstat: <http://unctadstat.unctad.org/>

Annex table 2. Hungary: outward FDI flows, 2000–2011

(US\$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	0.6	0.4	0.3	1.6	1.1	2.2	3.9	3.6	3.1	2.7	1.3	4.5
Memorandum: comparator economies												
Austria	5.7	3.1	8.8	7.1	8.3	11.1	13.7	39.0	29.5	7.4	7.7	30.5
Poland	0.0	-0.1	0.2	0.3	0.9	3.4	8.9	5.4	4.4	5.2	5.5	5.9
Czech Republic	0.0 <sup>a</sup>	0.2	0.2	0.2	1.0	-0.0	1.5	1.6	4.3	0.9	1.2	1.2
Greece	2.1	0.6	0.7	0.4	1.0	1.5	4.0	5.2	2.4	2.1	1.0	1.8
Slovakia	0.0	0.0	0.0	0.2	-0.0	0.2	0.5	0.6	0.5	0.4	0.3	0.5
Slovenia	0.1	0.1	0.2	0.5	0.5	0.6	0.9	1.8	1.4	0.2	-0.2	0.1
Estonia	0.1	0.2	0.1	0.2	0.3	0.7	1.1	1.7	1.1	1.5	0.1	-1.5
Portugal	8.1	6.3	-0.1	6.6	7.5	2.1	7.1	5.4	2.7	0.8	-7.5	12.6

*Source:* UNCTAD statistical website, UNCTADstat: <http://unctadstat.unctad.org/>

*Note:* “0.0” denotes less than US\$ 100 million in outward FDI flows.

Annex table 3. Hungary: sectoral distribution of outward FDI stock, 2000 and 2010

(US\$ million)		
Sector / industry	2000	2010
All sectors / industries	1,280.0	20,000.8
Primary	24.2	3,951.4
Agriculture, forestry, and fishing	0.0	11.3
Mining, quarrying and petroleum	24.2	3,940.1
Secondary	171.6	4,549.4
Food, beverages and tobacco	19.2	17.5
Textile and leather	14.3	3.0
Wood, pulp, paper and publishing	14.5	98.5
Coke, refined petroleum and nuclear fuel	0.0	1,741.0
Chemicals	31.5	1,336.4
Rubber and plastic	18.3	128.3
Other non-metallic minerals	29.1	296.3
Metals	0.1	21.7
Machinery and equipment	0.3	6.6
Electrical and optical equipment	2.3	732.5
Transport equipment	36.4	0.3
Furniture and manufacturing	0.1	60.7
Electricity, gas and water	2.0	53.3
Construction	3.5	50.1
Services	1,024.2	11,015.8
Wholesale, retail trade and repair	250.6	2,138.7
Hotels and restaurants	19.8	205.6
Transport and telecom	16.6	225.6
Financial intermediation	584.4	3,222.9
Real estate	4.1	98.0
Computer services	0.6	10.0
Business services	114.6	5,004.2
Other services	0.1	95.1
Acquisition of real estate and OFDI by households	44.9	484.2
Not identified	15.1	0.0

*Source:* Authors' calculations, based on data from the National Bank of Hungary. Data available at: [http://english.mnb.hu/Statisztika/data-and-information/mnben\\_statistikai\\_idosorok/mnben\\_elv\\_external\\_trade/mnben\\_kozetlen\\_tokebef](http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef)

*Note:* US dollar values calculated using the average annual exchange rate for 2010: 1 US\$ = 208.15 HUF; for 2000: 1US\$ = 282.27 HUF. (Source: Hungarian National Bank, available at: [http://english.mnb.hu/Root/ENMNB/Statisztika/data-and-information/mnben\\_statistikai\\_idosorok/mnben\\_elv\\_exchange\\_rates](http://english.mnb.hu/Root/ENMNB/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_exchange_rates)).



Annex table 4. Hungary: geographical distribution of outward FDI stock, 2000 and 2010  
(US\$ million)

Region / economy	2000	2010
World	1,280.0	20,000.8
Developed economies	1,148.1	9,329.5
Europe	1,085.2	8,291.4
Switzerland	4.5	987.60
European Union	1,070.8	7,286.0
Austria	86.1	79.6
Bulgaria	3.9	1,244.9
Cyprus	89.0	994.1
Czech Republic	69.4	331.6
Denmark	131.1	9.2
France	1.4	144.5
Germany	37.1	100.4
Ireland	35.8	2.5
Italy	1.3	429.6
Luxemburg	1.4	455.5
Netherlands	409.7	156.0
Poland	13.8	371.7
Romania	63.5	682.3
Slovakia	111.7	2,058.2
Slovenia	4.7	78.0
Spain	0.5	20.5
United Kingdom	10.2	69.6
North America	61.9	1,026.3
Canada	0.1	28.9
United States	61.8	997.4
Other developed countries	1.02	29.6
Australia	0.65	17.9
Japan	0.37	11.7
Developing economies	6.3	4,494.7
Africa	1.7	7.9
Asia and Oceania	3.3	1,252.6
Republic of Korea	0.0	435.1
China	1.3	29.4
India	0.9	22.6
Singapore	0.0	476.0
Latin America and Caribbean	1.3	2,980.9
Transition economies	39.9	6,176.6
Croatia	17.0	3,436.2
Montenegro	n.a.	248.9
Russian Federation	6.4	467.5
Serbia	n.a.	484.8
FYR of Macedonia	0.0	463.4
Ukraine	15.6	603.5
Unspecified destination	85.71	472.3

*Source:* Authors' calculations, based on data from the National Bank of Hungary. Data available at: [http://english.mnb.hu/Statisztika/data-and-information/mnben\\_statistikai\\_idosorok/mnben\\_elv\\_external\\_trade/mnben\\_kozetlen\\_tokebef](http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef)

*Note:* US dollar values calculated using the average annual exchange rate for 2009: 1 US\$ = 0.748 Euros; for 2000: 1 US\$ = 1.0827 Euros. (Source: Hungarian National Bank, available at: [http://english.mnb.hu/Root/ENMNB/Statisztika/data-and-information/mnben\\_statistikai\\_idosorok/mnben\\_elv\\_exchange\\_rates](http://english.mnb.hu/Root/ENMNB/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_exchange_rates)).

Annex table 5. Hungary: top 10 MNEs headquartered in the economy, ranked by foreign assets, 2010

Rank	Name	Industry	Host economies of OFDI	Foreign assets (US\$ million) <sup>a</sup>
1	MOL Group <sup>b</sup>	Oil and gas	Austria, Bosnia-Herzegovina, Cameroon, Croatia, Cyprus, Czech Republic, France, Germany, India, Iraq, Ireland, Italy, Jersey (United Kingdom), Kazakhstan, Kosovo, Macedonia, Marshall Islands, Mexico, Montenegro, Oman, Pakistan, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Switzerland, Syria, The Netherlands, Tunisia, Ukraine, United Arab Emirates, United Kingdom, Yemen	17.719
2	OTP Bank	Banking	Austria, Bulgaria, Croatia, Cyprus, Luxemburg, Montenegro, Romania, Russia, Serbia, Slovakia, The Netherlands, Ukraine, United Kingdom	2.500
3	Magyar Telekom (Deutsche Telekom Group)	Telecom	Bulgaria, TFYR of Macedonia, Montenegro, Romania, Ukraine	1.200
4	Gedeon Richter	Pharmaceuticals	Armenia, Austria, Czech Republic, France, Germany, Hong Kong (China), India, Italy, Jamaica, Japan, Republic of Moldova, Poland, Romania, Russia, Slovakia, Spain, Switzerland, The Netherlands, Ukraine, United Kingdom, United States	861
5	Videoton	Electronics	Bulgaria, Ukraine	288
6	MKB Bank (Bayern LB Group)	Banking	Bulgaria, Romania	250
7	Danubius Hotels	Hotels	Czech Republic, Romania, Slovakia	219
8	BorsodChem	Chemicals	Czech Republic, Italy, Poland	100
9	Dunapack (Prinzhorn Holding)	Paper	Bulgaria, Croatia, Lithuania, Poland, Romania, Slovakia, Ukraine	75
10	KÉSZ	Construction	Germany, Romania, Russia, Serbia, Ukraine	74

*Source:* Authors' estimates based on the Magdolna Sass and Oliver Kovacs, "Hungary's global players: A strong presence in the neighborhood in 2009," in Karl P. Sauvant, Vishwas P. Govitrikar and Ken Davies, eds., *MNEs from Emerging Markets: New Players in the World FDI Market* (New York: Vale Columbia Center, January 2011), available at: <http://www.vcc.columbia.edu/books>, the balance sheets of the companies and values of individual M&A transactions, obtained from Thomson ONE Banker, Thomson Reuters.

<sup>a</sup> Estimated values.

<sup>b</sup> MOL Group: includes TVK, majority owned by MOL.

Annex table 6. Hungary: main M & A deals, by outward investing firm, 2008–2010

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Estimated/ announced transaction value (US\$ million)
2010	Gedeon Richter	PregLem SA	Pharmaceuticals	Switzerland	100	463.0
2010	Gedeon Richter	Grünenthal Contraceptives	Pharmaceuticals	Germany	100	334.0
2010	Reform, Mai nap	A.G.O. SAS	Business services	France	100	14.0
2010	Admiral Electronic Club	Hotel Carrera	Hotels	Peru	100	5.0
2010	Állami Nyomda	GPV Mail Services Srl	Mail services	Romania	50+50	2.0
2010	Tech in Central & Eastern Europe	Internet Corp Srl	Publishing	Romania	n.a.	3.0
2009	MOL	Pearl Petroleum Company Ltd	Oil and gas	Iraq	10	54.0
2008	Gedeon Richter	Polfa Grozdisk	Pharmaceuticals	Poland	36.8	43.0
2008	OTP Bank	Donskoy Narodny Bank	Banking	Russia	100	41.0
2008	Waberer	Somitco Trans	Transport	Romania	100	29.5

*Source:* The authors, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Hungary: main greenfield projects, by outward investing firm, 2008 –2010

Year	Investing company	Host economy	Joint venture partner in host economy (if any)	Industry	Estimated/ announced investment value (US\$ million)
2010	WizzAir	Lithuania	n.a.	Air transport	127.9
2010	Wizzair	Serbia	n.a.	Air transport	127.9
2010	Omninvest	Uzbekistan	Uzfarmszanoat (Uzbekistan)	Pharmaceuticals	100.0
2010	NanGenex	United Kingdom	n.a.	Pharmaceuticals	59.5
2010	Richter Gedeon	Hong Kong, China	Rxmidas Pharmaceuticals (China)	Pharmaceuticals	51.7
2010	Jeans Club	Slovakia	n.a.	Retail trade	11.1
2010	ELMIB	Serbia	n.a.	Renewable energy	6.5
2010	RFV	Romania	n.a.	Business services	5.4
2010	Vitafort	Laos	n.a.	Food and tobacco	3.4
2009	TriGránit	Slovakia	n.a.	Real estate/construction	2,230.0
2009	MOL	Croatia	n.a.	Oil and gas	524.0
2009	WizzAir	Czech Republic	n.a.	Air transport	128.0
2009	Omninvest	Uzbekistan	Uzfarmszanoat (Uzbekistan)	Biotechnology	70.0
2009	WizzAir	Switzerland	n.a.	Air transport	61.0
2009	Genesis Energy	Spain	None	Renewable energy	58.0
2009	Omninvest	Uzbekistan	Uzfarmszanoat (Uzbek)	Pharmaceuticals	56.0
2009	MOL	Pakistan	None	Oil and gas	40.0
2009	Friedman Corp.	Macedonia	n.a.	Real estate	26.5
2009	CIG Central European Insurance	Romania	None	Financial services	23.0
2008	TriGránit	Romania	n.a.	Real estate/construction	1,573.0
2008	TriGránit	Poland	n.a.	Real estate/construction	781.8
2008	MOL	Slovakia	CEZ (Czech)	Oil and gas	449.5
2008	TriGránit	Croatia	n.a.	Real estate/construction	311.0
2008	TriGránit	Russia	n.a.	Real estate/construction	289.0
2008	Brixxon	Austria	None	Car manufacturing	236.0
2008	System Consulting	Ukraine	None	Renewable energy	197.0
2008	Wizzair	Romania	n.a.	Air transport	149.0

2008	TriGránit	Slovenia	n.a.	Real estate/construction	144.0
2008	MOL	Serbia	None	Oil and gas	39.0

*Source:* The authors, based on fDi Intelligence, a service from the Financial Times Ltd.

*Note:* “n.a.” indicates not applicable.