



# General overview for investors in Hungary's Manufacturing Sector

## ● WHY INVEST IN HUNGARY?

Over recent years, hundreds of new industrial investments have been made in Hungary. Mercedes-Benz, GM, Audi, Apollo Tyres, Hankook, Continental, Bosch, Knorr Bremse, Magna Automotive, Grundfos, Lego, Rehau and Nestlé, to name just a few of the international top enterprises, who have opened or extended factories in Hungary in recent years. All of them (as well as an increasing number of the Hungarian companies) have realized the competitive advantages of opening a Hungarian manufacturing plant, company, and logistics centre or company seat. In addition to a stable economy and government support, Hungary provides unique competitive advantages to companies, even in comparison with other CEE countries.

- Development and support of the Hungarian manufacturing sector is a strategic focus of the Government
- Great Central European location within the Schengen zone, logistically ideal for supplying the whole European and Middle East market
- Competitive and enterprise-friendly tax system, with its corporate tax rate being the lowest in the EU (9% flat)
- Average wages in Hungary are approx. 40% of the average in the EU
- National and municipal incentives (both refundable and non-refundable cash subsidies, and tax allowances)
- Wide range of national and EU grants available with attractive conditions
- Developed transportation systems, extensive motorway and rail network with the third highest road density in Europe after Belgium, and the Netherlands
- Developed and active industrial property market, with well-built and stable utility networks, and moderate and regulated energy prices
- Shared-service centres and engineering development centres of international manufacturing companies have been established in Hungary, which shows that they are satisfied with the country, and this also has a positive impact on the quantity and quality of production
- Budapest is ranked among the top 10 most attractive cities for foreign direct investment in Eastern Europe according to the 2016-2017 ranking of a Financial Times Group publication
- According to most country analyses for investors in the manufacturing sector, Hungary is one of the top three countries in Eastern Europe in terms of suppliers, labour market, universities, infrastructure, location and logistics





## ● MANUFACTURING SECTOR OVERVIEW

In harmony with the re-industrialization strategy of the European Union, the Hungarian Government has placed the industrial and manufacturing sector at the focus of its economic development strategy. Hungary has spent significant amounts of money from EU sources and also wants to utilize further EU funding (with a maximum funding level of 50%) and national incentives for enterprise development, and at the same time help expand major production-oriented sectors. Within this area, special emphasis is being placed on the support of high-tech industrial sectors, due to their multiplier effect. Influential high-tech industrial sectors can and will have a positive impact on stakeholders in supplier chains and the industrial services sector. Eventually, the number of jobs is expected to rise in these sectors, including low-skilled ones. In terms of exports, automotive manufacturing and related sub-sectors, pharmaceuticals and the food industry may constitute the main arm of future growth.

To support the re-industrialization strategy, the Hungarian Government introduced the Irinyi Plan, a long-term development plan named after the Hungarian innovator János Irinyi.

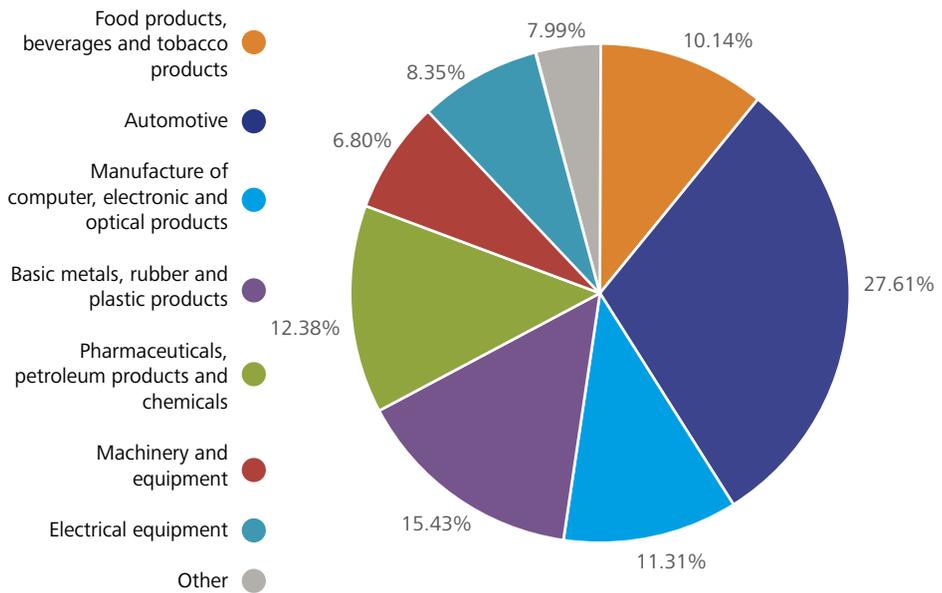
The program outlines the main directions for economic development through to 2020. The implementation of these priorities by the Hungarian Government is adding further incentives to the industrial sector, supporting innovation, helping to create jobs and promoting the competitiveness and export potential of domestic large enterprises and SMEs. In order to develop a more modern industrial production structure, with the capacity to create more added value, the Government is shifting towards an innovation-focused economy and supporting the industrial sector with up-to-date market and technical knowledge, R&D activity, and education.

The Hungarian Government has identified seven priority areas: automotive manufacturing, manufacturing of specialized machinery and equipment, pharmaceuticals and medical technology, tourism, food manufacturing, the green economy, info communications and defence.

Hungary is always open to supporting foreign investors, and to cooperating strategically with international companies. This governmental commitment to increasing the competitiveness of the manufacturing sector fosters the dynamic development of both SMEs and large enterprises. The Hungarian Government is planning to increase the share of the industrial and manufacturing sector from 26% to 30% of GDP by 2020.

Plans to reduce red tape are another way to support investors. A focus on deregulation in the legislative process will result in a homogenous, pro-competitiveness regulatory environment. The main areas within the Hungarian manufacturing sector are automotive, ICT, machinery and equipment, pharmaceuticals & medical technology and food manufacturing.

**SUBSEGMENTS OF THE HUNGARIAN MANUFACTURING SECTOR (2017 Q1-3 )**



Source: HCSO

In general, the recovery of Hungarian manufacturing was slow after the 2008-2009 financial crisis but after 2012, a clear upward trend can be seen in all the main manufacturing indicators. The growth rate in the manufacturing sector was 8.1% in 2015 and it accounted for 26% of Hungarian GDP.

In 2016 there was a decline in growth in the manufacturing sector to an annual rate of only 0.9%. Negative rates of growth were recorded in four of the thirteen subsegments of manufacturing in 2016. The automotive subsegment grew by 0.3%, while the computer, electronic and optical products segment saw the largest increase in growth at 9.3%. The production of food, beverages and tobacco products was characterized by moderate growth (1.4%); the volume of sales increased.

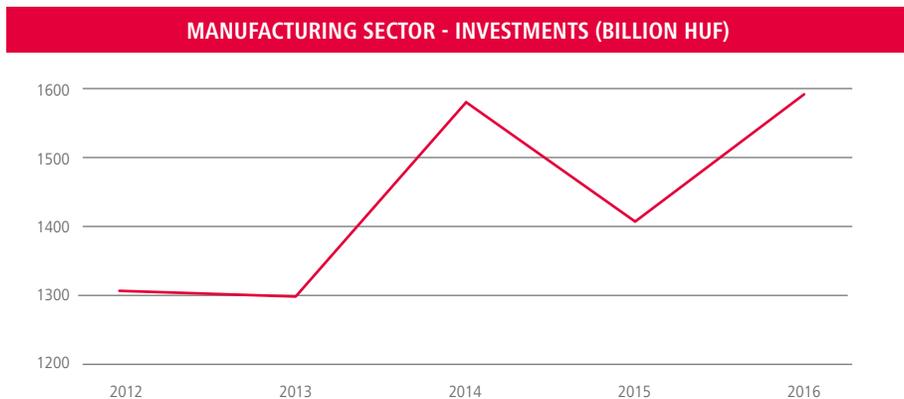


The output of the manufacturing sector rose by 5.2% in the first nine months of 2017 compared to the same period of the previous year. The labour productivity of manufacturing companies with 5 or more employees rose by 1.7%, while there was a 3.2% increase in the number of employees. Industrial production rose in every region of Hungary. The largest growth in volume growth was in Northern Great Plain (8.9%), while the lowest was in Southern Great Plain (2.4%).

The total growth in the industrial sector's export activity was 9.8% in 2015 and 0.4% in 2016. Exports of the manufacturing sector's products rose by 1.3% compared to the previous year; 75% of sales were exports. The domestic sales of the industrial sector dropped by 1.2%, while in the manufacturing sector it expanded by 1.7%.

In the first nine months of 2017 the volume of industrial export sales increased by 5.7%; exports accounted for 65% of sales. Domestic sales increased by 4%.

Investment trends in the manufacturing sector are also indicators of the manufacturing sector's reliable growth. The investment index shows a clear upward trend from 2012. Investment in manufacturing, which accounted for more than a third of all investment in Hungary, was 12.4% higher in the second quarter of 2016 than in the same period in 2015.

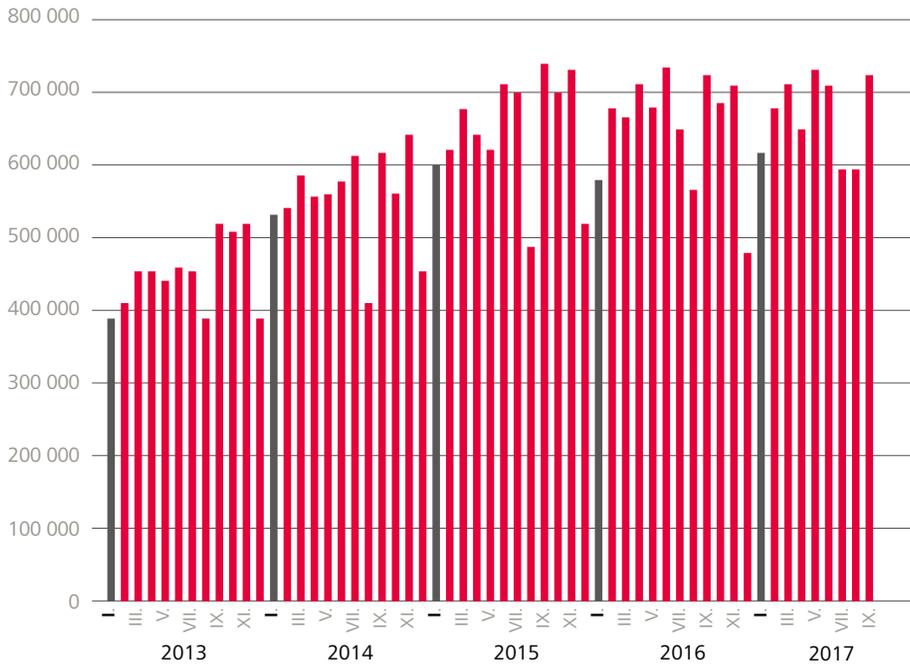


Source: HCSO

Investment in manufacturing was 14% higher in the third quarter of 2017 than in the same period of 2016. The largest contributor to the increase was investment in the manufacture of transport equipment, and there was also significant expansion in the manufacture of electrical equipment and computer, electronic and optical products.



## PRODUCTION OF THE AUTOMOTIVE SECTOR 2014-2017 (MILLION HUF)



Source: HCSO

There are new technology trends in the automotive sector: an autonomous driving test track and numerous charging stations have been established.

In addition to Original Equipment Manufacturers (OEMs), a large number of the world's top suppliers are present in the Hungarian market, including Bosch, Knorr Bremse, Continental, Delphi and Denso. Some leading international companies and Hungarian suppliers have already set up R&D centres (such as Bosch, Knorr-Bremse, Continental, and Thyssenkrupp) alongside their production capacity.

One of the main advantages for the Hungarian manufacturing sector is the wide range of government incentives available – both refundable and non-refundable – to support investors coming to or expanding in the country. The following government investment incentives are available in Hungary:

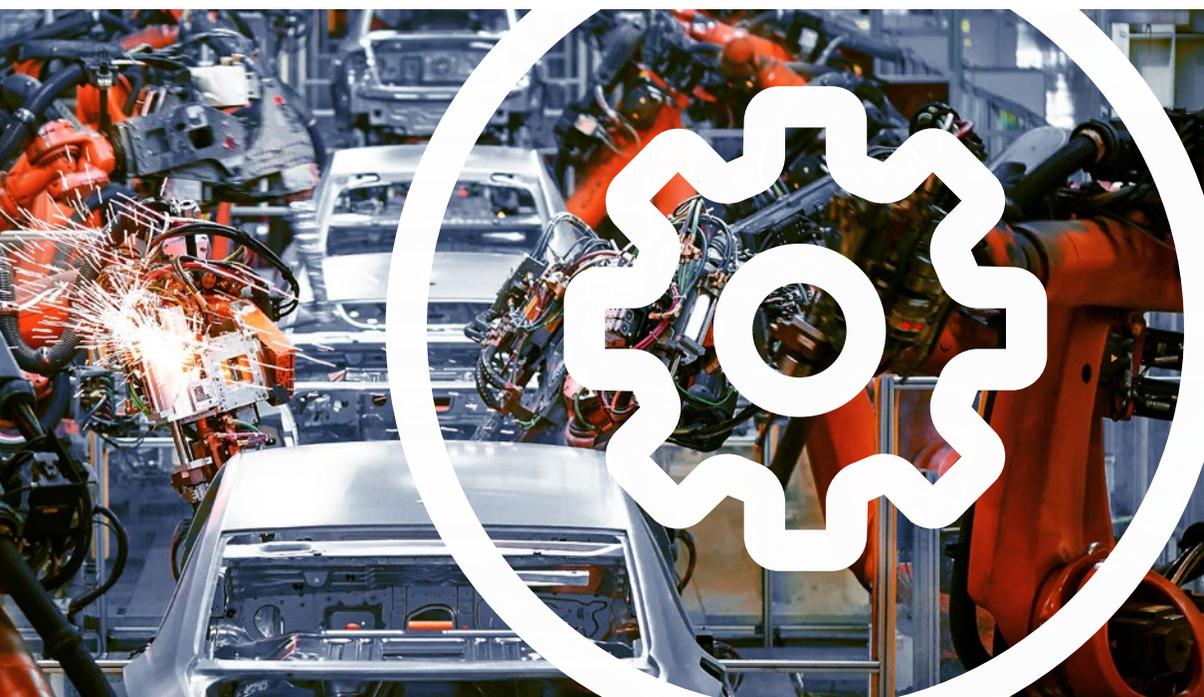
- Cash grants – subsidies based on individual governmental decisions for job creation and asset investment
- EU co-financed tenders
- Development tax allowance
- Training subsidies
- Workshop establishment aid

Corporate income tax rates are also an attractive aspect of investment in Hungary: the corporate income tax rate dropped to 9% in 2017.

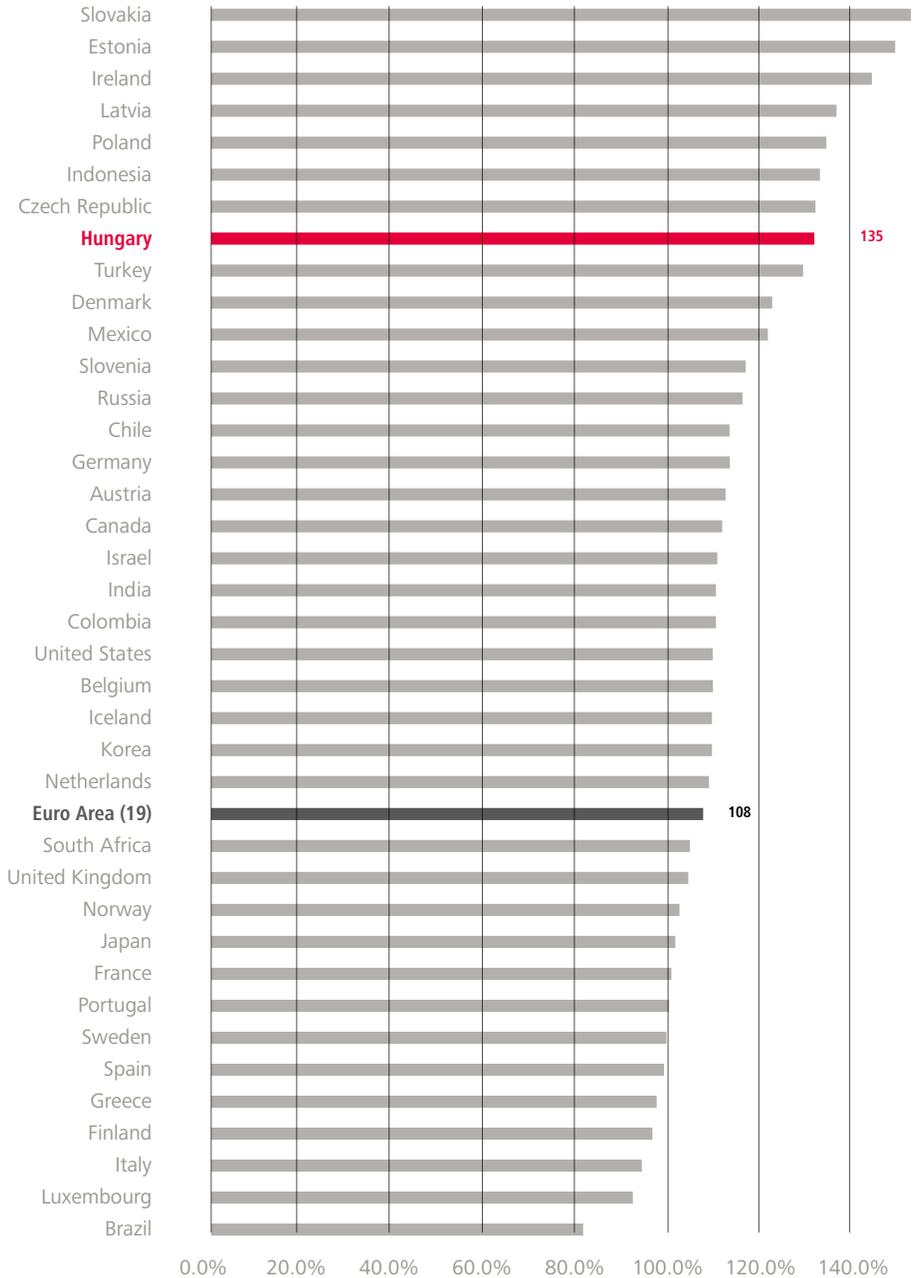
A digital revolution is under way in the manufacturing sector. In the next few years large manufacturing enterprises and SMEs will need major investment focussing on digital technologies such as sensors, connectivity devices and software to preserve their competitive advantages. R&D activity within the sector is also increasing partly due to the available tax allowances and EU funds. The Hungarian Government has launched the Industry 4.0 National Technology Platform with the participation of research institutions, education institutions and companies that carry out R&D in Hungary. This program provides a framework for companies to support high-added-value research and development work. All newly established Hungarian companies can take advantage of the Industry 4.0 program. The government wants to utilise this program to motivate Hungarian SMEs and large enterprises, especially in the application and development of digital manufacturing and the internet of things.

## ● ACQUISITION OPPORTUNITIES IN THE MANUFACTURING SECTOR

27 years after the change in the political system in Hungary many company owners have reached the age of retirement. Many of them would now like to sell their companies, which will increase Hungarian M&A activity in the manufacturing sector. This trend is creating attractive opportunities to acquire existing businesses ( established production infrastructure, and well-trained skilled staff) and to complete new investments. The Hungarian Government has launched supplier development programmes which make these companies more attractive. Some of these manufacturing companies are working for the world's largest enterprises as suppliers.



**VOLUME INDEX OF PRODUCTION AND THE MANUFACTURING SECTOR IN THE COUNTRIES OF THE EU, AUGUST 2017 (2010=100%)**



Source: Eurostat



## A COST-EFFECTIVE AND SKILLED LABOR MARKET

The Hungarian unemployment rate dropped slightly to around 4.1% by the end Q3 2017, but varied widely from region to region. The highest rate (7.2%) was in Northern Hungary, while the lowest rate was in the West-Transdanubian Region (2.2%). Those investing in the less developed regions with higher unemployment rates receive special support through central and local government incentives, cash subsidies and tax allowances.

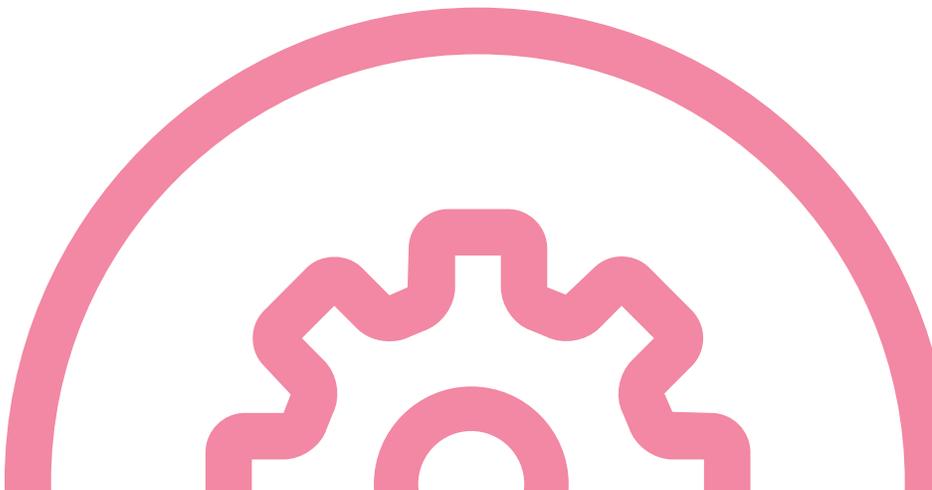
Hungary has one of the cheapest labour markets in the EU: the average salary in Hungary was the third lowest in the EU in 2016. Hungary is still one of the best locations in the EU for manufacturing plants on the basis of average labour productivity ratio. The official minimum wage in the country is also one of the lowest in the EU at approximately 410 euros per month.

The Hungarian labour market is characterised by a well-educated labour force and good labour conditions. Almost 90% of people leave school at 18 with a secondary diploma (this indicator is among the best within the EU), and over a quarter have a university degree.

On the other hand, there is a labour shortage in Hungary, and so companies have problems with hiring and retaining workers, which places upward pressure on wages. All sectors are affected by the labour shortage, but the problem is most serious in construction, manufacturing, and services.

Hungarian educational institutions are flexible and keen to cooperate with industry players. For example Audi, Mercedes-Benz and Bosch have set up joint training courses with local universities to prepare students for employment. In these joint training ventures car manufacturers and other companies are paying students to take more practical, job-oriented training in special programs designed to improve the availability of Hungarian workers. Audi operates programs in 11 departments in the Széchenyi István University in Győr, the Budapest University of Technology and Economics, the University of Miskolc, and Óbuda University.

Mercedes-Benz has had a partnership with Kecskemét College since 2012. The company started with mechatronic maintenance, vehicle mechatronics, and vehicle coating, and now also offers a program for toolmakers and a management program.

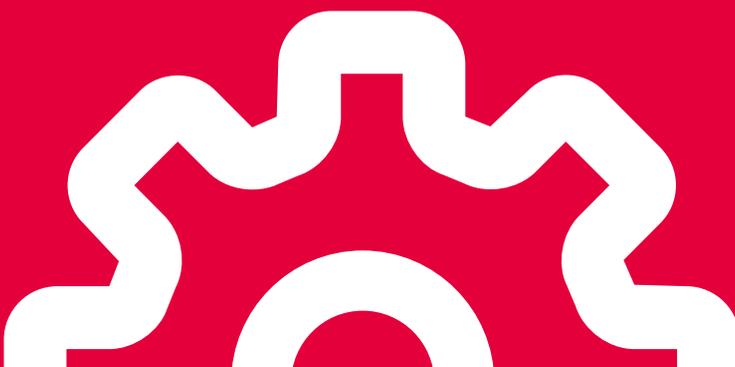


## SUCCESS STORIES FROM THE MANUFACTURING SECTOR

- With the most developed pharmaceutical subsector in the region, Hungary provides an ideal base for life science companies. For example, the leading Hungarian pharmaceutical company **Richter Gedeon Nyrt.** is spending EUR 50 million on an investment project to expand its biotechnology plant, which was founded in 2012 to develop and manufacture biosimilar products, and which has cutting-edge technology which is unique in the region.
- The Hungarian pharmaceutical and health products manufacturer **Béres Gyógyszergyár** is investing HUF 3.2 billion (EUR 10 million ) in a new production department in Szolnok. The company will receive a non-refundable government subsidy for 50% of the cost in return for creating 60 new jobs. Béres plans to expand the size of their factory by 1,640 sqm. and their logistics warehouse by 800 sqm., and they will install new technologies, improve infrastructure and nearly double production capacity.
- The automotive industry is the leading and most dynamic subsector of the manufacturing sector in Hungary. Automotive production accounts for 30% of Hungarian manufacturing and represents 18% of exports. Over 700 companies work in this field with the top four **Original Equipment Manufacturer companies** (Audi, Mercedes, Opel, and Suzuki) employing over 20,000 people.
- Within the automotive subsector, **Mercedes and Audi** have invested the most in production. Mercedes-Benz Hungary is building a new plant in 2017 next to its existing factory in Kecskemét; 150,000 cars will be manufactured annually at the factory, which is being built with an investment of EUR 1 billion.
- **Borgwarner Turbo Systems Kft.**, the U.S.-based supplier of turbocharger systems and other automotive components, is investing HUF 15.5 billion in Komárom-Esztergom County. The approximately EUR 51 million investment is supported by a HUF 1.7 billion HUF (EUR 5.5 million ) government subsidy.



- **Suzuki** was one of the first international car makers to open a Hungarian plant. This was built in 1991, with manufacturing starting in 1992. Until the financial crisis of 2009, it was the domestic market leader with a 20% market share. It is still one of the biggest car producers with an annual production of approximately 150,000 vehicles.
- **Apollo Tyres** implemented the first green field investment in Gyöngyöshalászi, which is the company's second factory in Europe. The decision shows that the management of the company had confidence in Hungary. The project was launched in 2015 with an investment of EUR 475 million. After the first construction phase, the factory will have the capacity to produce 5.5 million vehicles and 675,000 bus and truck tyres per year.
- **Robert Bosch Elektronika Kft.** (part of Bosch Group) is creating 600 new jobs in Hatvan. The project is taking place between 2016 and 2018 and has a total capital cost of HUF 18.9 billion HUF, including a HUF 4.7 billion HUF (EUR 15 million ) grant provided by the Hungarian government. This project will involve both the purchase of machines to produce automotive electronic parts and the expansion of existing capacity.
- **Procter & Gamble** has been present in Hungary since 1991 and is now launching a USD 200 million investment project. The company appreciates the investment climate in Hungary, the skills of Hungarian employees and the country's quality infrastructure. The company decided that both Braun packaging operations and assembly and packaging operations for some Oral B products, will be carried out in Hungary at the Gyöngyös plant. Additionally, P&G is expanding its manufacturing facilities in Csömör with state-of-the art technology to manufacture a new generation of sanitary pads. Together these investments exceed USD 200 million and will result in the creation of around 250 manufacturing jobs.





## MAJOR NEW FOREIGN INVESTMENTS IN HUNGARY – 2017



- **Bridgestone Europe** (BSEU) is a key regional subsidiary of Tokyo-based Bridgestone Corporation, the world's largest manufacturer of tyres and other rubber products. The company has been present in Hungary since 2007 in Tatabánya Industrial Park and now it is launching an HUF 85 billion expansion project. The project will create 500 new jobs and is being supported by the government with a HUF 2.4 billion grant.
- **Edelmann** is one of Germany's leading packaging manufacturers and system suppliers with locations in Europe, Asia and America. The company has been present in Hungary since 2003 in Zalaegerszeg. The site is focused on the manufacture of folding cartons and wet-glue labels. It is expanding its factory with a HUF 3.15 billion investment. The expansion will create 100 new jobs and the government is supporting it with a HUF 786.9 million.
- **HÜBNER Group** is a German comprehensive system supplier and manufacturer of key components for the transportation industry and medical technology products. The company has been present in Hungary since 1997 and has announced that it is expanding its factory in Nyíregyháza with a HUF 3.4 billion investment. The project began in August 2016 and is planned to be finished in 2023. The government is supporting the project with a HUF 844 million grant. The expansion will create 125 new jobs, with 60 new positions already filled.



- The German company **Krones AG** plans, develops and manufactures machines and complete lines for the process, filling and packaging technology sectors. The company has announced that it will build a new plant in Debrecen with a HUF 15 billion investment. The project will create 500 new jobs and is being supported by the government with a HUF 5.5 billion grant. The plant will manufacture machinery parts and other equipment and will employ engineers. The company has a long history in Hungary: it built production lines for mineral water bottling plants in Szentkirály (2007), Sárobgárd (2008), and Piliscsév (2010) and for the Hell Energy plant in Szikszó in 2011.
- **Maxon Motor** is a Swiss company which produces all the key components of its high-precision drive systems on machines and production lines designed in-house. It has been present in Hungary since 2001 and production started in Hungary in 2002. The company employs 380 people and produces 1 million products per year. An expansion was announced in 2017 will create 102 new jobs. The project requires a HUF 4.2 billion which is being supported by the government with a HUF 1.05 billion grant.
- **Samsonite** is a US based luggage manufacturer which has been present in Hungary since 1989 when it acquired the plant of Palota Bördíszmú Szövetkezet in Szekszárd. The company will open a new plant and training centre in Hungary, which will create 1000 new jobs. The project requires a HUF 7.5 billion HUF investment and the government will support it with a HUF 889 million grant.
- **Ten Pao** is a world-class public traded manufacturer of power supply systems. The company's first plant outside Asia will be in Miskolc. Ten Pao will invest HUF 4.5 billion in Hungary to build a 2,600 sqm. factory and will create 300 new jobs by 2021. The new factory is planned to become the main production centre in Europe and an important logistics partner for European customers. Production will reach USD 100 million per year through expansions in capacity taking place through to 2021.



