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## **Outward FDI Policies in Visegrad countries**

### **Country report – Hungary**

In the Central and Eastern European region Hungary was the first country that invested considerable amount of capital abroad. Main targets were the neighbouring countries. This paper briefly describes the characteristics of this outward investment (OFDI) activity and puts emphasis on its state support. We would also like to assess whether there is a consistent policy to enhance Hungarian investments abroad and what kind of state support Hungarian investor companies used.

#### **Description of OFDI trends**

The outward FDI stock of Hungary exceeded EUR 27 billion at the end of 2013 according to the data published by the Hungarian National Bank. With this amount, Hungary is still among the leading outward investor countries among the new member states of the European Union.

As far as the geographical distribution of Hungarian OFDI is concerned, neighbouring and geographically close countries (especially Croatia, Slovakia, Bulgaria, Romania, Russia, and Ukraine) have always had a relatively large share. These countries together with the Macedonia, Czech Republic, Poland, Montenegro, Serbia and Slovenia accounted for 28% of the Hungarian outward FDI stock in 2013. Within Europe, new destination countries include Belgium and Luxemburg, Cyprus and Switzerland. Apart from that the Dutch Antilles accounted for almost 27% of Hungarian OFDI stock, increasing gradually from 7% in 2008 that points at a possible round-tripping element in Hungarian FDI flows.

As far as the sectoral composition of the stock of outward FDI is concerned, it has changed significantly during the 2000s. By 2013 “other business services” is the leading industry with a 29% share. Manufacturing represented 17 %, with pharmaceuticals (8.4 % of total) being the most significant, mainly due to the activities of Gedeon Richter, one of the leading investor company. The relatively high share of manufacturing of petrol (3 %) is due to the activities of MOL, the leading investor. Another top company, Videoton is partly responsible for the relatively high share (3%) of electronics. Mining and quarrying’s high share (10%) is also due to the foreign activities of MOL. Apart from the mentioned firms OTP Bank is also a significant investor in financial services and KÉSZ in construction. These companies are also partly foreign owned, but their foreign ownership is dispersed, the investment and strategic decisions are made by the Hungarian management („virtual indirect” investor companies). Furthermore, the TriGránit Group, which is not included in Hungarian OFDI statistics is responsible for large greenfield investment projects. (TriGránit is owned by a Cypriot company, which in turn is majority-owned by a Hungarian private person.)

### **OFDI promotion**

There are public institutions to help and promote outward investment activities. The Hungarian Investment and Trade Development Agency (ITD Hungary) was founded in 1993 mainly for trade promotion. ITD Hungary had 20 offices in Hungary and more than 50 offices in 46 countries. A goal for ITD Hungary was also to help and promote Hungary’s small and medium-sized enterprises, encouraging SMEs to go beyond Hungary’s borders. ITD Hungary was well known abroad and had a role of OFDI promotion. In 2012 considerable governmental reorganisation took place, and ITD Hungary was dissolved and merged into the Regional Development Holding owned by Hungarian Development Bank. Most of the tasks of the ITD were taken over by a new agency called HITA.

HITA Hungarian Investment and Trade Agency was a public non-profit organization. Its role was to support foreign trade activities of SMEs and help them to strengthen their position in the global market, and also to support foreign companies to invest in Hungary. HITA was the background institution of the Ministry for National Economy, which employed 155 people with an annual budget of EUR 13.5 million. Most of the staff members of HITA were former ITD employees, and HITA took over all international projects from ITD. HITA had a role to help SMEs to export and invest abroad, mainly with information, events, advisory work, trainings, conferences, development programmes, exhibitions, seminars, delegations, joint economic committees, joint sessions, match-making events.



The successor of HITA, the Hungarian Investment Promotion Agency (HIPA) was established under a Government Decree in 2014 to provide professional help to foreign companies intending to invest in Hungary. HIPA supports the implementation of the Government's key investment promotion targets, offers company and sector-specific consultancy, attends professional events, recommends locations for investment, and organizes site visits for foreigners. Promoting outward FDI is not a task of HIPA anymore.

Furthermore, in every embassy there is a foreign economic attaché. His or her role is to represent Hungarian foreign economic interests abroad, that means partly export development, partly investment promotion. The task of the attaché is to collect information, advising, match-making, coordination, and logistic. If a Hungarian firm wants to invest abroad, it can appeal to this diplomat. First the attaché provides information concerning the foreign country: tax system, legal system, negotiation techniques. The attaché also gives contact lists to accounting firms, interpreters, tax advisories and connects the firm with the local investment agency. The attaché can also help to prepare negotiations at authorities (like environment protection or else) to help to realise the given investment. A general role of this attaché is also to continuously report on privatisation, public procurement and tender possibilities. These diplomats help to organise the joint (intergovernmental) economic committees that meet periodically once in Hungary once in the other country. These events are very useful for the firms, they find partners and business opportunities and sector-specific agreements are often signed too.

There are mainly two institutions, which offer financial help to firms. Eximbank helps Hungarian firms with investment credit. It partly finances such foreign investment that helps Hungarian exports of goods or services. Credits can be used to establish a firm abroad, buy a firm abroad, buy shares of a firm abroad, raise capital in a firm abroad or provide a long-term owner loan for an affiliate abroad. The Hungarian investor firm cannot decrease its export capacities during the credit terms of maturity and it has to possess control (majority ownership) on the affiliate abroad. The export of the Hungarian firm cannot be less than the sum of the credit. Other conditions of the credit: at least two closed business years, stable and sound background, at least 3 billion HUF revenues or HUF 500 million export revenue per year, minimum 30% own resource (that cannot stem from other loan). The time span of the credit is maximum 7-10 years.

Corvinus International Investment Ltd was established in 1997 by Eximbank, Hungarian Development Bank, Ministry of Economy and Export Insurance Ltd in order to help Hungarian companies to invest abroad. Its capital was raised continuously to 15 billion HUF and its sole owner became the Hungarian Development Bank. Between 2009-2011 it



supported Hungarian micro and small entrepreneurship abroad with non-refundable grants but later this activity was taken over by the state-controlled Bethlen Foundation. Since 2012 Corvinus Ltd realises co-investment in the CEE countries, mostly in Romania, Serbia, Ukraine, Slovakia. Conditions of investment are: Corvinus risks (invests) 100-150 million HUF per deal, own resource is needed from the investor, 5-8 year term, share of 10-49%, constant monitoring, at the end of the term, the investor buys the shares of Corvinus.

The Hungarian government pursued an active (inward) FDI policy since the start of the transition process. Hungary's BITs reflect its investment relationships with a large set of countries. At present there are 58 Hungarian BITs, which represents an "average BITS-intensity" in the Central and Eastern European region and is similar to the number of BITs concluded by other EU-members. Thus in that respect, the Hungarian business environment for OFDI does not differ from that of other countries of the CEE region.

### **Experiences of investor companies**

Via a questionnaire survey we asked firms having realised foreign investment activity abroad about their experience. Our mini-survey covered 13 companies, of which nine received any kind of support. In terms of their motivation for investing abroad, we identified two resource-seekers and one efficiency seeker, while the remaining ten companies ventured abroad for benefitting from access to new markets. In their foreign direct investments, the main inhibiting factors for the companies were lack of knowledge about the regulatory system of the host country (6 firms), followed by the lack of suitable foreign partners (5 firms) and lack of financial resources (4 firms). These most important factors predestined the companies surveyed for the use of outside support or help from either public or private sources. In spite of that, four companies surveyed have not received any help. One of them indicated that it could not find a suitable one, though it looked for various types of support.

From those receiving help for their foreign expansion, two relied on "commercial" sources (not public ones); one company on financial help from a commercial bank, another one on help from a private consulting agency. Both were large companies, thus they might not be eligible for various types of public support. The remaining seven companies relied mainly on help from ITDH/HITA, the aforementioned trade and investment promotion agencies (four firms). Two companies received financial support in the framework of EU-co-financed Hungarian operative programs. One company received help from Eximbank-MEHIB. The type of help received was predominantly in the form of grants – financial help (6 companies – one company may have received more than one form of help), in the case of the two EU-co-financed programs the companies had to have own funds, in other cases the support was free of charge. Two companies indicated that they received information about



the host country, and one company was helped in finding a suitable foreign partner. One of the large companies received a very special type of support, when a local consulate was opened in order to help its expansion in the region in question.

In terms of the evaluation of support, we could not find a clear pattern. Out of the eight companies giving an evaluation, there was one, which was completely satisfied with all the characteristics of the support: with its speed, relevancy and level of bureaucracy. At the other extreme, two companies found the help immensely bureaucratic. Overall, six companies found that the support could be evaluated as average.

The questionnaire contained a last, open question on the overall opinion of the companies about the Hungarian support system. One company indicated, that the support is dwarfed by the overall financial and human effort, which has to be made in order to realise a successful expansion. Another company remarked that in other, mainly developed countries, the support is much more substantial and more flexible in that area.

Overall, the information gained from our mini-survey indicated that the majority of companies is more or less satisfied with the public support received, however, four companies could not find a suitable support scheme, and among those, which received support, at least two firms indicated general or partial dissatisfaction. Thus basically half of the sample expressed discontent in any way, while the other half can be considered as content with the available public support. It is important to add, that it is mainly the lower range of large firms (which just pass the upper limit set for medium-sized companies), which could not really benefit from the support schemes. These companies are too large for qualifying for support, and at the same time, too small in terms of own financial and human resources to be able to expand abroad successfully and at the speed they plan to.

### **Conclusions**

Hungary is an important outward investor among the new member countries of the European Union. Over time, a supportive institutional background has been established in order to help companies investing abroad. Especially micro-, small- and medium-sized companies can benefit from the support provided by various institutions. After the 2010 change in government, the institutional background and the main aims of the institutions have been changed to a great extent, as well as the staff of the two main institutions offering public support. We suspect, that support for capital export has been pushed in the background compared to goods and services export and incoming FDI. This can be proved by the fact that we had serious difficulties in finding the responsible department and/or staff member at the relevant institutions.



The companies taking part in our mini-survey were overall satisfied by the support received; they praised especially its relevance, but were much less satisfied with its bureaucratic nature. However, four of 13 companies could not find a relevant support scheme for helping their foreign expansion. ITDH/HITA/HIPA still seem to be the most important actors in the area. In spite of the fact that according to the companies, lack of finances is only the third most important inhibiting factor of foreign expansion, financial help (grant) is the most frequent help received by them. That may point to the problems of reorganisation of the Hungarian support system alongside “EU-lines” (i.e. dominance of financial compared to fiscal and other support). However, as it was already mentioned, and as it is reinforced by one company taking part in the questionnaire: “in other, mainly developed countries, the support is much more substantial and more flexible” and supporting capital export is one of the main priorities of economic policy.

The statements expressed in this text exclusively reflect the views of its author.

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