



# Hungary: The new growth engine of the EU, Japan's long-established partner

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Hungary is a bustling business hub located in the heart of Europe with the lowest corporate tax in the continent. The country was recently named as the best country for investment in the Eastern Europe & Central Asia region by Site Selection, one of the most popular US magazines on investment. Hungary also achieved No. 1 ranking for investment volume per capita.

The country's GDP growth rate has been around 4% for three consecutive years. As a European Union member, companies investing or doing business in the country have access to the EU market of 500 million people. 45 of the world's 80 largest multinationals have either established long-term presence or have their SME suppliers here. Hungary is an open economy where particular emphasis is placed on promoting foreign investment. The inward FDI stock in 2015 was 70% of Hungary's GDP. Partnership with potential investors receives the outmost priority. The Hungarian Investment Promotion Agency (HIPA) supports companies even after they settled in the country, whether it is about

further expansion, getting the necessary labour force or local regulations and administration. Recently, the Site Selection Magazine also named HIPA as the regions' best investment supporting organization. Until now the Hungarian government has signed more than 70 strategic partnership agreements, among them with 7 Japanese companies.

## Inviting incentives and non-impeding tax system

To further promote investments in Hungary, the government has introduced a number of schemes. A new incentive scheme has been launched to support tech-intensive investments. Furthermore, a few key changes have been introduced to the tax system. The emphasis has been shifted from income-type taxes to consumption-type taxes. The corporate tax rate has been lowered to a flat 9%, the lowest in the EU. The flat personal income tax system was generally introduced in 2013 as a low-rate family friendly system, where the costs of raising children are taken into account (family tax credit from the personal income tax). On 1 January 2016, the tax rate was reduced to 15%. There is also a gradual reduction of the tax burden



**Norbert Palanovics** was appointed Ambassador of Hungary to Japan in 2016. He was born in Pécs, South Hungary. He first arrived in Japan in 2002, when he spent one year at Kansai Gaidai University in Osaka, majoring Asian Studies. After finishing his Master's degree in business studies in Hungary, he went to Mexico to lecture at a private university, then returned to Japan to commence his doctorate studies at Nagoya University. While researching for his PhD degree, he worked as a Japan correspondent for a Hungarian newspaper and for a Hungarian business weekly. His PhD thesis about Japan's peacebuilding-based ODA diplomacy was successfully defended in 2008. He published several articles and book chapters based on his research.

In 2008, he set up the Tokyo representative office for Hungary's largest and most prestigious food company, Pick Szeged Co, and successfully introduced Hungary's special edible national treasure, the Mangalica to the consumers in Asia. He was appointed Ambassador of Hungary to Japan in 2016.

Ambassador Palanovics speaks Japanese, English, Spanish, German and Hungarian. His hobbies include food culture, movies, sports, traveling, exploring and understanding new cultures.

related to employment. For this purpose, in 2017 the social contribution tax was lowered by 5 percentage points to 22%. From 2018, a further 2.5 percentage points reduction has been implemented.

## Innovation, technology and education

Currently, 157 Japanese companies are active in Hungary, employing about thirty-four thousand people. The most recent investor in the country is GS Yuasa that chose the city of Miskolc for their new lithium-ion battery factory. Hungary was not only a top candidate country for GS Yuasa for its highly developed infrastructure and favorable tax system, but also due to the country's long-term investment in new and innovative technologies. The government has launched a major re-industrialization blueprint, the Irinyi Plan. Under the Plan, Hungary is to become one of the EU countries with the most developed industrial sectors by 2020. Hungary is shifting towards an innovation-focused economy supported by research and development and tertiary and vocational education. For example, the University of Óbuda launched their dual programme with Denso Hungary in 2017. Denso already employs more than 5000 people in Hungary, and they see the future in the practical education of young professionals. Additionally, the Ányos Jedlik e-mobility plan is creating an umbrella organization including automotive companies, energy utilities, universities, research institutions, NGOs, municipalities to achieve a high level of electric mobility.

A yet unexplored area by Japanese investors in Hungary is the ICT sector. The share of ICT spending as part of GDP has increased to 4.3% in 2016. In addition to that, the Hungarian IT outsourcing market is by far the most advanced in the Central European region. The outsourcing services primary market in Hungary totaled 213 million euros worth in 2016. Just to name a few, Hungary has welcomed companies like HP, IBM, Oracle, SAP, Unisys to launch their IT support centres in the country. Hungary is also an ideal location for R&D centres thanks to the large pool of local professionals. Among many others, prominent companies such as Accenture, Blackrock, Morgan Stanley, Huawei Technologies, GE have chosen Hungary for their solutions, methodology and application development centres.

## Promising future outlook

With the 150th anniversary of diplomatic relations between Japan and Hungary coming up in 2019, we see that there are many reasons to celebrate. Japan is our biggest investor from Asia, with Japanese investment in

Hungary amounting to 4 billion euros. When it comes to trade, Japan is our largest buyer of agricultural and food products in the Asia region. I sincerely hope that Japanese investors and partners will see more opportunities in Hungary on top of the countless success stories Japanese firms have already achieved with us.



The ceremony of laying the foundation stone of the new GS Yuasa factory in Miskolc with Minister of Foreign Affairs and Trade, Mr. Péter Szijjártó and GS Yuasa President Mr. Murao Osamu in March 2018



Hungary's Prime Minister Mr. Viktor Orbán and the Chairman of Suzuki Corp. Mr. Osamu Suzuki in Hungary in 2015 with the Suzuki Vitara (Escudo in Japan), manufactured in Hungary



Minister of Foreign Affairs and Trade, Mr. Péter Szijjártó signs the strategic partnership agreement with Denso President Shinsuke Yamaguchi in 2013