

HUNGARIAN WATCH

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Hungarian Watch is a quarterly report. It contains up-to-date information about Hungary, focusing on breaking news in the fields of law, economics, business and other situations which could have a major impact on the course of Hungarian events.

Hungarian Watch is primarily prepared for those who are thinking about Hungary from an investment point of view. The investment perspective runs through this newsletter by leading the reader through the actual Hungarian business climate including the most recent investment opportunities.

We hope that Hungarian Watch will keep you regularly informed on relevant Hungarian news, enabling you to know how and when to seize an investment opportunity before it vanishes.

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Summary



Utility service providers willing to sell some operations to the Hungarian state

Sharp cuts in utility prices

*The Hungarian retail energy sector has recently experienced a tough time. After the imposition of sector taxes in the energy market, a 10% price cut was imposed in respect of regulated prices for households in the field of electricity, gas and district heating sector. Utility service providers complained that the sharp cut jeopardizes their long-term operations. However, despite these warnings the Hungarian government appears to be resolved to introduce even further cuts to the regulated utility prices. Some energy firms have already expressed a willingness to sell some of their operations to the state. **Read more...***



Banking sector may face consolidation

OTP is planning to acquire two banks

*The chairman-CEO of OTP Bank, Sándor Csányi argued that the sector's lack of profit could drive the sector to consolidation. "Currently we have eight large banks. However, it is certain that in the next couple years there will be less than eight. There will be four maybe five" Csányi told Reuters. Csányi's statement caused wild speculations in the professional circles. Will consolidation really turn into reality? Which players will remain in the market? Which players will sell their Hungarian businesses? **Read more...***



Turbulent times in Hungary's media business

Government announces new tax on the media industry

*The news about the potential introduction of an advertisement tax generated a wide debate in professional circles. The tax would particularly hit the largest television companies RTL Klub and TV2. In general the new advertisement tax would be hardly sustainable for several large media players. The recent events – including the merger plan of Axel Springer and Ringier and speculation regarding other potential deals – evidence the inevitable restructuring of the Hungarian media industry. There is no question that the expected advertisement tax will reinforce these trends. This proposal may be put before Parliament in the autumn session. **Read more...***



A new chance for the Hungarian upstream gas and geothermal sector

Call for tenders for hydrocarbon and geothermal energy concessions in Hungary

*In order to give a boost to upstream gas and geothermal sector the Hungarian Minister of National Development has recently published the calls for tenders for the exclusive right of exploration, development and production of hydrocarbons and geothermal energy under concession contracts. Bids may be submitted by 15 November 2013. Will this long awaited opportunity attract the major players in the Hungarian upstream gas and geothermal sector? **Read more...***

Call for tender for the EUR 10 billion worth project of the Paks Nuclear Power Plant expansion



A new chance for the Hungarian economy



A pair of silver scissors is shown cutting through a large, bold, red stamp that reads "DEFICIT". The stamp is oriented diagonally, and the scissors are positioned as if they have just cut through it, symbolizing the elimination of the deficit.

The new economic boom may cause further interest rates cuts

Mutual trust and profit

The new bill may give a boost to the development of the Hungarian construction industry

*ment adopted a new bill providing for a swifter court procedure and other efficient measures in order to resolve debt chains and return the market confidence in the construction industry. Hopefully the new measures will facilitate the recovery and rise of the Hungarian construction sector. **Read more...***

Utility service providers willing to sell some operations to the Hungarian state

Sharp cuts in utility prices

The Hungarian retail energy sector has recently experienced a tough time. After the imposition of sector taxes in the energy market, a 10% price cut was imposed in respect of regulated prices for households in the field of electricity, gas and district heating sector. Utility service providers complained that the sharp cut jeopardizes their long-term operations. However, despite these warnings the Hungarian government appears to be resolved to introduce even further cuts to the regulated utility prices. Some energy firms have already expressed a willingness to sell some of their operations to the state.

Key players:
GDF SUEZ,
RWE,
E.ON,
EDF,
ENI



It is evident from the recent events that the Hungarian government is extremely determined to enforce its policy of reducing household utility prices. After introducing the 10% price cut in January 2013, utility service providers turned to the courts, challenging the decision of the regulator. The utility service providers argued that when determining

regulated prices the Hungarian Energy Office (“MEH”) should take into account that the utility service providers have the right to incorporate extra burdens in the regulated price (such as financial transaction duty, utility network cable and pipe tax) and pass them on to the consumers. Certain utility service providers won the case before the first instance court.

Soon a tough response arrived. The Hungarian Parliament passed a bill which prohibits an additional fee for the above mentioned burdens from being pushed upon consumers. Thus, practically speaking the enforcement of the court judgement has become impossible, as even before the second instance court would have made a final decision. Furthermore this measure was quickly followed by a restructuring of MEH. The restructured new authority has received legislative power to issue decrees, so it will be accountable only to the Hungarian Parliament and the Constitutional Court. Unlike the administrative decisions made in the past, the legislative acts will be exempt from review by ordinary courts.

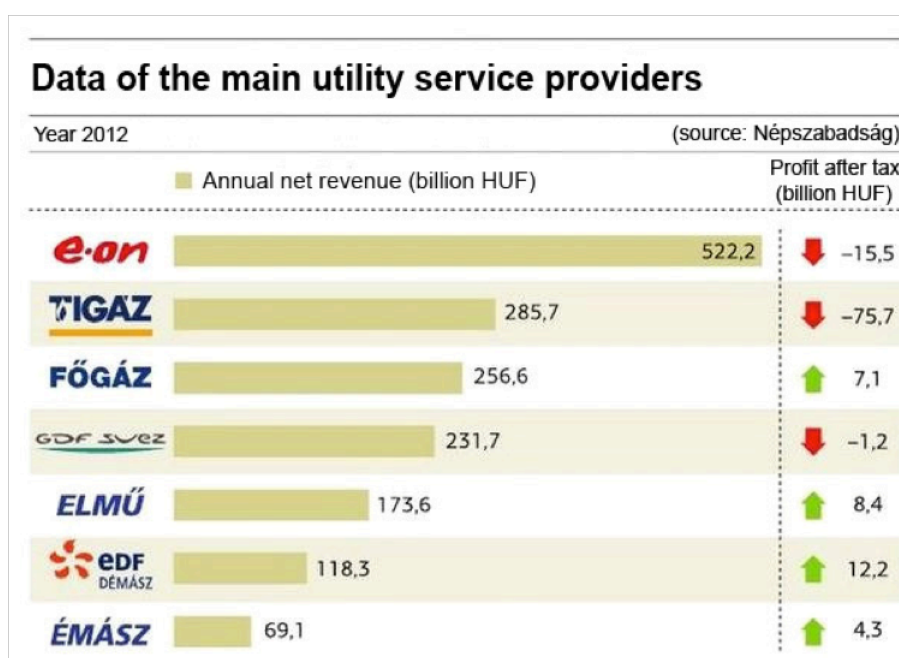
Recently the Hungarian government has announced that it will continue this course and that the next price cut may reach 20% before October 15. Under these conditions

some energy firms have already expressed a willingness to sell their unprofitable business units to the state. According to some press reports negotiations between the state and the Italian company ENI (the shareholder of TIGAZ) are already under way regarding the sale of the gas utility provider, TIGAZ.

Since the elections in 2010 the Hungarian Government has been arguing that a state shall have a more significant role in the energy market. As part of this programme, the state acquired a stake in Hungary's major publicly traded oil and gas company (MOL) and recently agreed to buy the local gas business units (wholesale trading and storage unit) of the German company E.ON.

What the outcome of this disputed policy will be is rather unpredictable. The decrease in the utility prices had a positive effect on the inflation, which contributed to reaching a low inflation figure of only 1.9%, such a low level has not seen in Hungary for several decades.

On the other hand, some analysts argue that the price cuts jeopardize the safe business operation of the retail energy sector, which may have a negative macroeconomic impact in the long term. It is also believed that the price cuts are not sustainable for several energy service providers who have been already operating unprofitably for years despite their high turnover figures (such as TIGAZ, GDF SUEZ and E.ON). Thus it seems inevitable that unless the Hungarian government changes its course, some players may exit the Hungarian energy market.



Banking sector may face consolidation

OTP is planning to acquire two banks

The chairman-CEO of OTP Bank, Sándor Csányi argued that the sector's lack of profit could drive the sector to consolidation. "Currently we have eight large banks. However, it is certain that in the next couple years there will be less than eight. There will be four maybe five" Csányi told Reuters. Csányi's statement caused wild speculations in the professional circles. Will consolidation really turn into reality? Which players will remain in the market? Which players will sell their Hungarian businesses?



In the period leading up to the financial crisis Hungarian banks were closing several very successful years and recording high profits. The Hungarian market was (and is still) predominately operated by subsidiaries or branches of Western European banks

and the Hungarian businesses were for several years among the most profitable within these banking groups.

However, in the last couple of years the Hungarian banking industry has been struggling to generate profit and many banks have recorded significant losses due to deteriorating market conditions and also to a changing regulatory and tax environment.

Hungary was severely affected by the credit crunch in 2008, which dramatically increased financing costs for Hungarian banks. The decision of many Hungarian banks to lend in foreign currencies (particularly Swiss Francs) in the years leading up to the financial crisis, also led to significant losses after 2008, when the foreign exchange of the Hungarian Forint decreased dramatically against the Swiss Franc.

In this already challenging market environment, the introduction of the extra tax on banks and the payment transaction tax put further strains on Hungarian banks. Furthermore, banks suffered significant losses from the various regulatory changes (such as the one time statutory loan pre-payment right introduced in 2012, allowing retail borrowers to repay foreign currency loans under a favourable exchange rate).

All this generated higher selling pressure and decrease of the price of the shares of many banks.

Csányi's statement is evidently supported by facts. Banco Populare has recently sold 100% of the share in Banco Populare Hungary to Magnet Bank for a symbolic consideration equal to 0.5 million EUR. Furthermore, OTP Bank has recently announced that it is intending to acquire two banks, as their foreign owners plan to withdraw from the Hungarian market.

Key players:

OTP,
Erste,
Raffaelsen,
Intesa San Paolo,
Unicredit,
KBC,
Bayerische Landesbank

According to press speculations, among OTP's potential acquisition targets may be the following players:

- *Competitors who in the last couple of years had serious losses (such as CIB, MKB and Raiffeisen),*
- *Banks which announced that they are going to suspend their activities (such as AXA, Commerzbank and Banco Primus) and*
- *Hungarian branches of bank giants (such as BNP Paribas and Deutsche Bank), which did not contribute significantly to success of the respective company group.*

In respect of some banks these negative conditions have occurring simultaneously.

OTP Bank is one of few profitable banks in Hungary. Its operation is primarily focused on the retail sector. 2/3 of its credit portfolio and almost half of its deposit portfolio comes from its retail business.

László Bencsik deputy CEO of OTP Bank stated that OTP has strong interest to strengthen both its retail and wholesale business. On the one hand, OTP intends to expand its position in the retail business, which is already strong. On the other hand, OTP also plans to further develop its wholesale business. Among the potential acquisition targets, AXA is more retail-focused, whereas MKB, CIB, BNP Paribas, Commerzbank and Deutsche Bank are more wholesale-focused banks.

If some of the acquisitions speculated about in the press should be closed within the next few months, the Hungarian banking landscape would be significantly changed.

Potential acquisition targets (source: Portfolio newsletter)

Potential acquisition targets	Annual net profit (billion HUF)				Balance sheet total (billion HUF)
	2009	2010	2011	2012	2011
MKB Bank	0,3	-112,8	-111,4	-87,7	2 697
CIB Bank	4,5	-15,2	-52,4	-151,9	2 502
Raiffeisen Bank	4,3	-10,8	-75,1	-56,1	2 349
AXA Bank (branch)	-1,3	-9,2	-37,3		499
BNP Paribas (branch)	9,8	4,4	6,2		389
Commerzbank	-2,4	-0,1	1,9		293
Deutsche Bank (branch)	3,3	1,1	0,3		77
Banif Plus	-	1,6	0,8		27
BNP Parisbas SS (branch)	-0,1	-0,0	0,0		23
Banco Primus (branch)	-0,8	-0,4	-0,0		17

Turbulent times in Hungary's media business

Government announces new tax on the media industry

The news about the potential introduction of an advertisement tax generated a wide debate in professional circles. The tax would particularly hit the largest television companies RTL Klub and TV2. In general the new advertisement tax would be hardly sustainable for several large media players. The recent events – including the merger plan of Axel Springer and Ringier and speculation regarding other potential deals – evidence the inevitable restructuring of the Hungarian media industry. There is no question that the expected advertisement tax will reinforce these trends. This proposal may be put before Parliament in the autumn session.

Key players:
Bertelsmann Group,
ProSiebenSat.1,
Sanoma,
Axel Springer,
Ringier



At the end of May 2013 the Government announced that it will propose a tax on advertising revenue. The progressive tax would levy 1% on net revenues between HUF 1 billion and HUF 5 billion, 10% on net revenues between HUF 5 billion and HUF 10 billion and 20% on net revenues above HUF 10 billion.

The two largest television companies, RTL Klub (owned by the German Bertelsmann Group), and TV2 (owned by the German ProSiebenSat.1) would be hit the hardest by the tax, as their revenue exceed the threshold of HUF 10 billion. Based on the 2012 revenue data, RTL Klub would need to pay HUF 4.4. billion, which is well above its 2012 annual profit and TV2 would need to pay HUF 1.8 billion, despite the fact that it has been already operating with losses for years. However the proposed tax would also detrimentally affect the profit margin of other big media players such as Viasat Hungary. On the other hand, media giants Ringier or Axel Springer would remain relatively unaffected by this change, as a large portion of their revenues are generated by non-advertising activity – specifically, publishing.

Some media companies speculated about demerging their companies or broadcasting from abroad in order to avoid the harsh tax obligation. However the Government appeared to be resolved to ensure the implementation of the tax obligation by filling these loopholes in the draft. The latest draft extended the tax obligation to the affiliated companies of media company groups and determined the taxpayer as a person who irrespective of its place of residence broadcasts media contents in Hungarian

in Hungary at least in respect of half of its programme.

Media companies warned that the new measure would economically jeopardize the already troubled media sector. There is a consensus in the media industry that whereas the tax would place disproportionate burden on companies, the budgetary impact of the tax would be trivial (less than HUF 10 billion) in comparison to the aggregate macroeconomic level.

In the lack of the true economic rational, there are market rumours that the real motive behind the launch of the tax is the intended sale of TV2. It is a well known fact that TV2 has been a potential acquisition target for Modern Times Group for years. However another company, Infocenter which is a government friendly media outlet also set eye on TV2. It is an undisputed fact that TV2 have had recently negotiation with both companies.

Thus there are speculations in the professional circles that the Government would like to change the power relationship between the two competitors for TV2. By introducing the advertisement tax Modern Times Group may be deterred from the purchase. Following this logic, in case of purchase of TV2 by Infocenter the advertisement tax proposal may be withdrawn.

What the outcome of this proposal will be is rather unpredictable. It remains to be seen whether the market rumours have any valid ground. Until then it seems to be evident that the new advertisement tax would be hardly sustainable for several large media players.

In recent months the media industry has already been extremely hectic. The German Axel Springer and the Swiss Ringier had just announced their merger plan regarding their Hungarian operations. There have also been speculations about other potential sales and purchases. The Finnish Sanoma may sell its Hungarian operations and the French TDF may sell its Antenna Hungária operating in digital broadcasting. On the other hand, the Austrian Vienna Capital Partners may purchase some Hungarian journals of Axel Springer.

No question, the potential introduction of the advertisement tax could reinforce restructuring trends of the Hungarian media industry. This proposal may be put before Parliament in the autumn session.

A new chance for the Hungarian upstream gas and geothermal sector

Call for tenders for hydrocarbon and geothermal energy concessions in Hungary

In order to give a boost to upstream gas and geothermal sector the Hungarian Minister of National Development has recently published the calls for tenders for the exclusive right of exploration, development and production of hydrocarbons and geothermal energy under concession contracts. Bids may be submitted by 15 November 2013. Will this long awaited opportunity attract the major players in the Hungarian upstream gas and geothermal sector?



The Hungarian Minister of National Development has recently commenced calls for tenders for the exclusive right of exploration, development and production of hydrocarbons and geothermal energy under concession contracts. The investors will have the chance to win exclusive concessions via tender in seven areas of Hungary.

These tenders have been long awaited as such concessions have not been offered for a long time. The Government expects that the new tenders will give a boost to foreign investments, increase of energy supply and diversification of energy resources. It is also expected that these tenders may attract the main domestic and foreign players in the upstream gas and geothermal sector. Time will soon show who the actual players will be and what will be the potential impact of these tenders on the Hungarian upstream gas and geothermal sector.

The main details of the tenders

	Hydrocarbon	Geothermal energy
Language of the tendering procedures	Hungarian	Hungarian
Participants	Any domestic or foreign natural person/entity on condition they meet the tender specifications	Any domestic or foreign natural person/entity on condition they meets the tender specifications
Area (sq km)	From 278 sq to 471 sq km	From 100 sq to 525 sq km
Overburden and bedrock of the areas designated for concession	The overburden is the surface of the designated area. The bedrock of the designated area varies from 5000 to 6500 meters below Baltic sea level.	The overburden of the designated area is 2500 meters measured from the service. The bedrock of the designated area is 6000 meters measured from the service..
Minimum net concession fees	From HUF 293 000 000 (approximately EUR 1 million) to HUF 413 000 000 (approximately EUR 1.4 million)	From HUF 38 500 000 (approximately EUR 130 000) to HUF 50 000 000 (approximately EUR 170 000)
Participation fees	3% of the respective net concession fee	3% of the respective net concession fee
Financial bid securities	7% of the respective net concession fee	7% of the respective net concession fee
Duration of the concession	20 years plus may be extended for another 10 years without a further call for tender	35 years plus may be extended for another 17,5 years without a further call for tender
Deadline for submission of bids	15 November 2013	15 November 2013

The deal of the century

Call for tender for the EUR 10 billion worth project of the Paks Nuclear Power Plant expansion

Considering primarily the potential future increase of energy consumption (according to the prognosis 1% increase/per year) and the need for renewal of old power plants the Government launched the project of Paks Nuclear Power Plant expansion few years ago. The latest evidences of this news is that the project is close to implementation, the invitation for the tender is expected by the end of 2013. There are 5 potential applicants: the French Areva, Atmea (joint venture of Areva and the Japanese Mitsubishi), the South-Korean Kepco, the Russian Rosatom and the American Westinghouse owned by the Japanese. According to the presentation of Rosatom the project would cost approximately EUR 10 billion.



According to the prognosis of the Hungarian Independent Transmission Operator Company Ltd., the gross peak-load of the Hungarian electricity system may increase approximately 100 MW per year in the future. Therefore, the capacity of current power plants of cca. 9 GW shall be increased to 11 GW within 15 years. Moreover, as

nearly half of the outdated power plants will have to be renewed, the establishment of several new power plants, new reactor units are necessary. Taking this into account, the idea of expanding the Paks Nuclear Plant by two new reactor units emerged a few years ago within the Hungarian government.

The Paks Nuclear Power Plant is located in the centre of Hungary and it is the first and only operating nuclear power plant in the country. Altogether, its four reactor units produce more than 40% of the electrical power generated in Hungary. The Paks Nuclear Power Plant is owned by the state-owned MVM Group.

In line with the above, on 30 March 2009 the Hungarian Parliament gave its consent to the preparation works of the possible new units at the Paks Nuclear Power Plant. The owner MVM Group is still awaited to announce an official tender for the expansion. Now the latest news suggests that the invitation to such tender is expected by the end of 2013.

As all four of the Paks reactor units are operating with pressurized water reactor technology, and the units operating and being under construction all over the world

are based on such technology, it is assumed by experts that the new units will be built with the same technology. It is also assumed that the latest III+ generation devices will be used in the course of the expansion. Taken into account the above technical circumstances, the number of the potential tender applicants may be reduced to about five: the French Areva, Atmea (joint venture of Areva and the Japanese Mitsubishi), the South-Korean Kepco, the Russian Rosatom and the American Westinghouse owned by the Japanese. From among these five firms only Rosatom has come out with any information about its interests yet. During a press conference held by Rosatom in April 2013 the company presented the reactors offered to be built by them and the representative of the company estimated that the construction of two 1200 MW blocks at the Paks Nuclear Power Plant would cost approximately EUR 10 billion.

No wonder that the prospective expansion of the Paks Nuclear Power Plant is considered the “deal of the century” in Hungary.

EU closed the excessive deficit procedure against Hungary

A new chance for the Hungarian economy

After nine years Hungary has finally managed to exit from the excessive deficit procedure (EDP). Hungary has become one of the few countries who are free from the EDP. The release from the EDP will have a clearly significant impact on the Hungarian economy as it is expected that it will generate lower lending rates, decreasing risk premiums and a more easily reducible government debt. The Minister for National Economy states that technically speaking the economic recession is over in Hungary.



Hungary had been subject to the excessive deficit procedure (EDP) since joining the EU in 2004 as the country failed to fulfil the financial requirements set by the EU. In May 2013 the Economic and Financial Affairs of the European Council (ECOFIN) approved a proposal of the European Commission to lift the EDP against Hungary. Upon the ECOFIN's approval, on 21 June 2013 the Council of the European Union released Hungary from the EDP together with Italy,

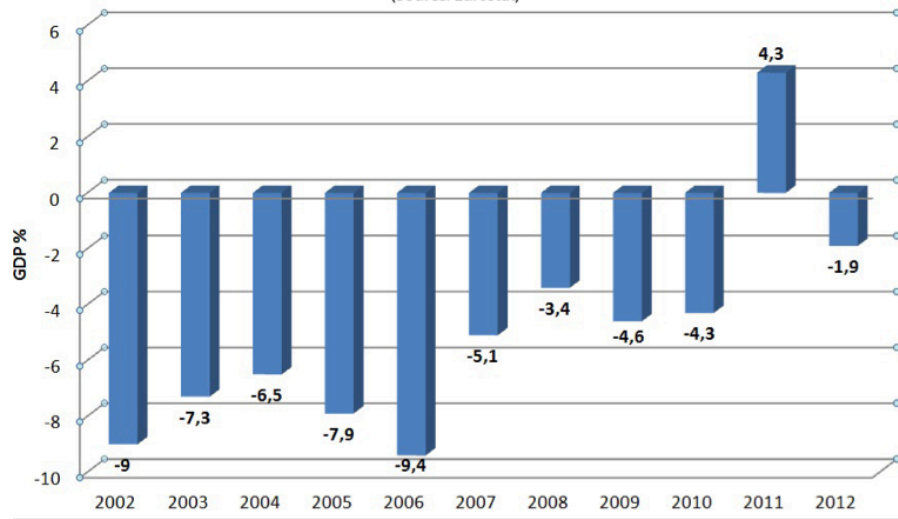
Latvia, Lithuania and Romania.

The above decision has been made thanks to a series of consolidation measures by the Hungarian government, which convinced the Commission and the ECOFIN that Hungary has taken effective actions regarding the correction of its excessive deficit. The deficit was only 1.9% of GDP in 2012 and forecasts from Eurostat and the Commission project deficits of 2.7% in 2013 and 2.9% in 2014, and therefore it stays under the 3% of GDP reference value.

It is expected that a strengthening forint (Hungary's currency), lower lending rates, decreasing risk premiums and a more easily reducible government debt may result from the release from the EDP. According to the Minister for National Economy in 2013 the Hungarian economic policy is turning its focus on fostering economic growth and he says that technically speaking the economic recession has stopped in Hungary.

Hungarian deficit between 2002-2012

(Source: Eurostat)



Hungary cuts interest rates to record low

The new economic boom may cause further interest rates cuts

After several cuts, the Hungarian interest rates have been reduced to the historic low level of 3.8% by the Central Bank of Hungary's decision of 27 August 2013. According to the Central Bank of Hungary as long as the real economy justifies further cuts are expected. Interest rates may sink to 3.5% or 3%. According to the opinion of financial experts, the cuts are based on the strong macroeconomic conditions in Hungary.



Interest rates in Hungary have been reduced to the historic low level of 3.8% by the Central Bank of Hungary. The prospect of further decreases, namely 3.5% or even 3%, has also been announced by György Matolcsy, the president of the Central Bank of Hungary. The economic stability that made the rate trims possible primarily stems

from the following three main factors:

I. Low inflation rate

Since February, 2013, inflation rate has been constantly falling due to the Governments' policy on state-regulated cuts of the utility prices. Utility prices qualify as major elements of the inflation basket in Hungary, and as a result of that, the Hungarian inflation rate could lower to 1.9%, to a historic low level, unseen for decades. As the Government promised a new set of utility cuts for the fall of 2013, inflation rate is expected to further decrease in the short- and medium-term.

II. Release from the excessive deficit procedure of the EU

The EU Council of Ministers released Hungary from the EU excessive deficit procedure after a 9-year period, on 21 July, 2013 (at the time of the decision on the interest rate, the release was already foreseeable). The Hungarian budget deficit was 1.9% of the GDP in 2012, and according to the recommendation of the EU Commission (that was approved by the Council of Ministers) it stays under the 3% level of the GDP, being 2.7% in 2013 and 2.9% in 2014. The decision of the EU finance ministers proves that Hungary has successfully stabilized its budget.

III. Stability of the Hungarian currency and the decrease of foreign currency loans

The Hungarian currency, the Forint (HUF), seems to be stable in the financial market, and the foreign currency loans of both the private and business sectors in Hun-

gary have decreased to a vast extent by almost one third of the total amount of foreign currency loans of 2010, as a result of the effective Government measures in this matter.

Mutual trust and profit

support the manufacturing industries. It has already concluded strategic partnership agreements with the following 34 companies and the number of such cooperation is likely to further increase:

Company	Business field
Alcoa	metalworking industry
AUDI	automotive industry
Bidgestone	tire and rubber industry
BOSCH	diverse manufacturing industry
CHINOIN	pharmaceutical industry
Coca-Cola HBC	soft drink manufacturing industry
Continental AG	automotive and truck manufacturing industry
Dalkia	energy service
Denso	automotive parts manufacturing industry
Ericcson	information and communications technology
GE	diverse manufacturing industry

HANKOOK Tire	tire and rubber industry
Hewlett-Packard	information technology
Huawei Technologies	information and communications technology
IBM	information technology
Jabil Circuit	electronics manufacturing industry
KNORR-BREMSE	braking systems manufacturing industry
LEGO Manufacturing	construction toys manufacturing industry
Linamar	automotive parts manufacturing industry
Mercedes-Benz Manufacturing	automotive industry
Microsoft	computer software technology
National Instruments	software and hardware technology
Nokia Siemens Networks	telecommunications equipment industry
Phoenix Mecano	electronics manufacturing industry
Richter Gedeon	pharmaceutical industry
Samsung Electronics	electronics manufacturing industry
SANOFI-AVENTIS	pharmaceutical industry
Siemens	electronics and electrical engineering technology
Stadler Trains	locomotive and rolling stock manufacturing industry
Suzuki	automotive industry
TATA Consultancy Services	information technology and consultancy
TESCO-GLOBAL	grocery and general merchandise retailer
TEVA	pharmaceutical industry
Waberner's International	international transportation industry

Better times ahead for the Hungarian construction industry

The new bill may give a boost to the development of the Hungarian construction industry

To lift the construction industry from recession intervention was needed. Thus the Parliament adopted a new bill providing for a swifter court procedure and other efficient measures in order to resolve debt chains and return the market confidence in the construction industry. Hopefully the new measures will facilitate the recovery and rise of the Hungarian construction sector.



The Hungarian construction industry was one of the leading Hungarian sectors for years. However the credit crunch in 2008 particularly hit the Hungarian construction industry. The recession of this industry raised debt chains and loss of market confidence. Action was needed. Thus the Parliament has recently adopted a new bill aiming at shortening of litigation

procedures, preventing the development of new debt chains and increasing the legal certainty in the construction sector via the following measures.

Measures to ensure faster and more efficient procedure

One of the basic reasons of development of debt chain was the constant disputes over the performance of the contractor and the issuance of the completion certificate. So far the principal was able to deny the issuance of a completion certificate at any time by unfoundedly alleging defects in order to push the contractor to lower its price. Without the completion certificate, the contractor was not able to issue the invoice and therefore had to choose between accepting a discount or turning to the court and facing a possibly lengthy procedure. However, turning to the court was not a real option as court proceeding could last for years and the principal could disappear in the meantime (by liquidation of its company or other ways). The same dubious methods were also applied by contractor towards sub-contractors. To deal with these conditions the new bill set up the following measures:

- *A new governmental body, Completion Certificate Expert Body (the “Body”) was set up. The task of the Body is to issue an expert opinion regarding the completion of the design and construction contracts. The significance of this novelty is that on the basis*

of the expert opinion, the court may order an interim measure in order to secure the payment of a claim not exceeding HUF 400 million.

- *The court proceeding will become swifter. Namely as from 1 September 2013, any lawsuit regarding the enforcement of payment obligations deriving from the performance of design or construction contracts qualifies as a priority proceeding (regardless the value of the subject matter) and accordingly, promoting the rapid completion of these proceedings via the special provisions and obligations applicable for priority proceedings.*
- *The decision of the court in respect of claims not exceeding HUF 400 million will become immediately enforceable regardless of an appeal.*

Measures to ensure safer market environment

The new measures also aim to create a safer market environment. Non-performance caused by irrationally low fees and unjustified drawdowns of bank guarantees presented a particular problem. To deal with these conditions the following measures are introduced:

- *The Government in a special decree introduced minimum hourly fee rates for the construction sector aiming to avoid the impractically low fees in the construction industry which results in the non-performance or illegal performance (e.g. with illegal employees) of the tasks undertaken.*
- *The new bill introduced the concept that the enforcement of certain collaterals of the design and construction contracts (i.e. bank guarantee, pledge and surety) shall be approved by the Body. Thus it shall not occur any more that the principal draw downs the bank guarantee of the contractor without justified reasons.*

In summary, the new bill shall hopefully facilitate the resolution of debt chains and return the market confidence in the construction sector. Experts welcomed the new measures, although some of them are sceptical regarding the expected impact of the novelties introduced by the new bill. At the same time the Government has great expectations. Time will show whether these novelties can pass the test and give a boost to the development of the Hungarian construction industry.

About VJT & Partners

The Firm

VJT & Partners is a Hungarian commercial law firm advising international and domestic corporate clients and entrepreneurs. The firm was founded by Janos Tamas Varga, who has created a highly successful team based on values including inspiring leadership, striving for perfection, commitment, courage and harmony.

VJT & Partners is recognised as one of Hungary's leading commercial law firms and also as an excellent collaborative partner, working hand-in-hand with its clients. Clients value the firm's absolute commitment, leading to effective and enduring relationships. The firm combines the highest degree of professionalism, the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Lawyers in the firm have developed an in-depth understanding of both the legal and the commercial realities of business. The firm prides itself in giving direct, honest and practical advice, tailored to its clients' needs. The shared values of VJT & Partners are at the very core of the creativity and 'fresh thinking' approach of the firm.

As a member of the EU, but not the single currency, Hungary has a unique language and business culture and a complex legal system bringing particular challenges. All lawyers at VJT & Partners have extensive experience of working with international and domestic companies alike, to help navigate these challenges and to achieve their objectives in Hungary, and to ensure appropriate regulatory approvals.

The leading legal directories rank VJT & Partners highly across a range of practice areas.

VJT & Partners is a full-service law firm that satisfies the needs of clients across a broad range of industries and professions. The firm's legal services include commercial contracts, competition, corporate M&A, data protection, dispute resolution, finance, immigration, employment, intellectual property, outsourcing, private equity, real estate, regulatory, restructuring and insolvency, and technology.

Practice Areas

The firm is especially active and highly ranked in the following areas:

Corporate mergers and acquisitions

VJT & Partners believes that advising on M&A transactions is to provide more than just legal advice. Understanding the logic and dynamics of the industry sector in which the client and other participants operate is a prerequisite for success.

Technology

The firm regularly advises clients operating in the technology sector on a wide variety of legal matters, ranging from corporate law issues to drafting industry-specific agreements on software development and licensing, system supply, database transfer and hosting, as well as maintenance and support services.

Employment

Highly rated employment lawyers at VJT & Partners have a wealth of experience in all aspects of contentious and non-contentious employment matters. Fully appreciated for understanding their clients' business goals, lawyers design structures and procedures that are watertight and defensible in many court proceedings.

Dispute resolution

VJT & Partners is well aware that effective management and resolution of disputes are of critical importance from a corporate risk management point of view. The firm regularly provides legal advice on pre-litigation. When it comes to litigation, lawyers focus on the business needs of clients, providing practical and cost-effective advice.

Business Immigration

Business immigration to Hungary may in particular take place through investment in residency bonds ("Investor Residency Bond Program") or by establishing a business in Hungary ("Business Entrepreneur Residency Program"). VJT & Partners' immigration lawyers handle all aspects of business immigration cases, advising medium to high-net worth foreign individuals and multinational corporations.

How We Work

Lawyers at VJT & Partners are encouraged to develop, to enjoy their work and to become real 'Masters of Collaboration'. Clients comment on the firm's cooperation, communication and its absolute commitment to what they are trying to achieve.

In turn, we find that this leads to effective and enduring relationships. We combine the highest degree of professionalism and the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Our Values

The values that lie at the heart of our business ethos are the building blocks of our business. Nurturing the following values brings the 'hearts and minds' of VJT & Partners' lawyers together as one successful team. We would be happy to talk you through them, what they mean to us, to our business and our clients:

- *Inspiring leadership*
- *Striving for perfection*
- *Commitment*
- *Courage*
- *Harmony*

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