



# HUNGARIAN WATCH

Autumn 2015



Masters of Collaboration

## Hungarian Watch Autumn 2015

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Hungarian Watch is a quarter yearly issued brochure. It contains comprehensive, 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 brochure by leading the reader through the actual Hungarian business climate including current business and 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 a business opportunity before it vanishes.

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# Table of Contents

Summary	4
New Silk Road to cross through Hungary	6
New era in Hungarian capital market	8
Budapest races to host 2024 Olympic Games	10
Hungarian state to acquire more energy firms	12
Reconsider EU data protection concept	14
VJT & Partners	16
About VJT & Partners	16
The Firm	16
Practice Areas	17
How We Work	18
Our Values	18

# Summary



## [New Silk Road to cross through Hungary](#)

### [Mega railway deal may be implemented in 2016](#)

After long term negotiations, the project of the modernization of the Budapest-Belgrade railway line could start soon. This project, worth EUR billions will enable Chinese goods to quickly reach Western Europe through Hungary. The parties are very close to an agreement regarding all the financial terms. Therefore, the call for tenders for one of the largest railway deals in Central Europe and the Balkans may be published in 2016. Stay tuned. [Read more...](#)



## [New era in Hungarian capital market](#)

### [Central Bank of Hungary purchased Budapest Stock Exchange](#)

On 20 November 2015 the Central Bank of Hungary (CBH) concluded a sales contract with Austrian CEESEG AG and Österreichische Kontrollbank, the entities which held a 68.6 ownership in the Budapest Stock Exchange (BSE). With this move, the CBH acquired controlling ownership of the BSE. The CBH intends to carry out serious reforms in the BSE. New listings of companies and new platforms are expected, which may contribute to an increase in the Hungarian capital market's activity. Overall, the BSE should enter into a new financial era, so investors ought to keep a close eye on upcoming developments. [Read more...](#)



## [Budapest races to host 2024 Olympic Games](#)

### [Historic opportunity](#)

Budapest will compete against Hamburg, Paris, Los Angeles and Rome to host the 2024 Summer Games. Out of these strong candidates, Hungary is the only country who has never hosted the Summer Games. Can Budapest realistically win this race? Time will tell, but the historic opportunity is here. At the same time, the government's strong commitment to the Hungarian sport industry will be strengthened in the upcoming years, so further investment boom is expected. [Read more...](#)



## [Hungarian state to acquire more energy firms](#)

### [New landscape of the Hungarian energy market](#)

By keeping low energy prices, the government is reshaping the country's gas and electricity market by pushing out foreign utility service providers. The complete universal gas service market is already in the hands of the state. The next acquisition target could be the universal electricity market. Moreover, it is also speculated that the state will buy most of the distributors by the end of 2017 in order to create a vertically integrated state-owned utilities system. Overall, major energy deals are expected which could completely change the landscape of the Hungarian energy market. [Read more...](#)

### [Reconsider EU data protection concept](#)

#### [Landmark ECJ decision regarding Hungarian data protection matter](#)

The European Court of Justice has recently brought a landmark ruling in the case of Weltimmo vs. the Hungarian Data Protection Authority. The bottom line of this ruling is that even a minimal presence of the company in a member state is sufficient to be subject to local law. The ruling largely extends the scope of local data protection law. Businesses therefore are advised to reconsider their understanding of EU cross-border data protection. [Read more...](#)



## New Silk Road to cross through Hungary

### Mega railway deal may be implemented in 2016

*After long term negotiations, the project of the modernization of the Budapest-Belgrade railway line could start soon. This project, worth EUR billions will enable Chinese goods to quickly reach Western Europe through Hungary. The parties are very close to an agreement regarding all the financial terms. Therefore, the call for tenders for one of the largest railway deals in Central Europe and the Balkans may be published in 2016. Stay tuned.*



We already reported in one of our previous editions that the relevant parties agreed on the reconstruction of Budapest-Belgrade railway line in December 2014. Now, the parties have also agreed about almost all of the financial terms, so they are very close to starting the implementation of this mega railway project.

Minister of Foreign Affairs and Trade Péter Szijjártó signed the agreement

with the President of the Chinese National Development and Reform Commission. It is agreed that 85% of the project will be covered by credit offered by China, so Hungary will cover only 15% from its own resources. Mr. Szijjártó also said that it is clear from the text of the agreement that the Chinese partners will be required to offer conditions below the market level.

*"There is an agreement that the loan will be provided for a term of 20 years, with a moratorium period of 5 years. The interest on the facility is the only question we have yet to agree on"* Mr. Szijjártó remarked. He also added that the two countries will soon need to agree upon the rate, because the implementation of this major project must start by the end of 2016.

The project is clearly of strategic importance. China under the Silk Road concept wants to ensure swift transit of Chinese goods from the Greek port, Pireus into Western Europe. On the other hand, Hungary is positioned between the Greek Port and Western Europe, and the Budapest–Belgrade railway road presents one of the shortest routes to Western destinations.

The project worth EUR 1.5 billion will be lead by a mixed Hungarian-Chinese joint venture. As a result of this project, trains will operate at 160 km/h (which could halve the transit time) and the modernized railway line will be able to accommodate cargo trains of 740 meters in length.

In this highly complex project the Hungarian-Chinese joint venture may heavily rely on players not just from the railway construction market, but also from other construction sectors and players specializing in railway electricity system construction.

Mega railway deal,  
2016 implementa-  
tion

Primary transit  
corridor to Western  
Europe

EUR billion valued  
project

Therefore, key players involved in this project may include the likes of Swietelsky, Strabag, Közgép, Bombardier and Alstom. But as the largest Hungarian railway investment in the last 25 years it will certainly need the contribution of plenty of other enterprises apart from the biggest Hungarian and international players.

Of course, every potential player is waiting for the publication of tenders for the construction. VJT & Partners will keep the readers of Hungarian Watch informed about every bit of news in linked to this project. Stay tuned.

Potential players:  
Swietelsky, Strabag,  
Közgép, Bombardier  
and Alstom

Stay tuned

## New era in Hungarian capital market

### Central Bank of Hungary purchased Budapest Stock Exchange

On 20 November 2015 the Central Bank of Hungary (CBH) concluded a sales contract with Austrian CEESEG AG and Österreichische Kontrollbank, the entities which held a 68.6 ownership in the Budapest Stock Exchange (BSE). With this move, the CBH acquired controlling ownership of the BSE. The CBH intends to carry out serious reforms in the BSE. New listings of companies and new platforms are expected, which may contribute to an increase in the Hungarian capital market's activity. Overall, the BSE should enter into a new financial era, so investors ought to keep a close eye on upcoming developments.



In the recent past the number of issuance and turnover of the BSE has substantially dropped. Also, the position of the BSE in the regional market has significantly fallen behind the regional competitors, in particular compared to Warsaw. The rare use of capital market financing by companies (with the exception of larger ones) has also presented a major problem.

As the Hungarian capital market was weak, the state decided to intervene. The CBH bought out the former Austrian owners of the BSE and accordingly, become the controlling owner with more than 75% of the shares in the BSE.

As the new controlling owner of the BSE, the CBH plans to implement a variety of strategic innovations to boost the Hungarian capital market and generally stabilize the financial system structure. The detailed strategy of the CBH will be ready by January or February 2016, but a number of the key strategy points are already clear, including:

- *Flexible owners of the BSE:* The CBH wishes to see new owners of the BSE with whom it can build together both the trading and issuance sides.
- *Regulation:* There needs to be a strong regulatory package behind the BSE
- *Encouraging state-owned companies to go public:* There are several big Hungarian state-owned companies which could expand the list, in particular utility services providers and state-owned banks (such as MKB Bank and Budapest Bank).
- *Creating a separate platform for SMEs:* This new platform would ensure easier access to financing for SMEs without having to meet the strict public stock exchange criteria.
- *Expansion of stock exchange services:* Assistance will be provided both to companies seeking to go public and those that wish to remain public.

Strategic innovations to boost capital market

New listings ahead



- *Global network creation.*

The CBH is committed to carry out serious reforms in the BSE. New listings of companies and new platforms are expected which may contribute to an increase of the Hungarian capital market's activity. Overall, the BSE may enter into a new financial era, therefore investors are encouraged to keep a close eye on upcoming developments.

New financial era

## Budapest races to host 2024 Olympic Games

### Historic opportunity

*Budapest will compete against Hamburg, Paris, Los Angeles and Rome to host the 2024 Summer Games. Out of these strong candidates, Hungary is the only country who has never hosted the Summer Games. Can Budapest realistically win this race? Time will tell, but the historic opportunity is here. At the same time, the government's strong commitment to the Hungarian sport industry will be strengthened in the upcoming years, so further investment boom is expected.*



Hungarian Watch already called your attention in several articles that Hungary is determined to bid for the Summer Olympic Games. Hungary has always been committed to the Olympic Games. Over the years Hungary has won more than 480 Olympic medals. It has applied to host the Summer Games six times throughout the history of the modern Games. It is the only country among

those that founded International Olympic Committee (IOC) which has not yet hosted the Summer Games. For all these reasons, the desire to organise the Olympic Games in Hungary has been strongly revived in the last 10-15 years.

Recently, Thomas Bach, the president of the IOC confirmed that Budapest and four other cities Hamburg, Paris, Los Angeles and Rome will bid to host the 2024 Summer Games. Thomas Bach welcomed all the five cities in the strong competition and highlighted that all five cities are qualified for hosting the Olympics. The final decision about the winner will be made in September 2017.

Can Budapest realistically win this race? Time will tell, but the historic opportunity is here. Several major factors could make Budapest's position strong.

The introduction of Agenda 2020 concept could be a key to Budapest's success. This concept brings an end to giant and over-luxurious Olympic Games. Instead, the new objective is to reduce the cost of bidding and ensure sustainability in all aspects of the organization of the Olympic Games.

This new concept was also emphasized by Thomas Bach in saying, *"Rather than telling cities how they should organise the Games, it is much better to ask cities how they think that the Games would best fit into their sporting, social, financial and ecological environment."*

Agenda 2020 therefore, makes the possibility of hosting the Summer Games far more viable for smaller capitals, such as Budapest.

The IOC has also expressed a desire to take the Games into new geographical areas and new markets. The Summer Olympic Games have never been hosted in Central

Budapest races to  
host 2024 Olympic  
Games

Historic opportunity  
for Budapest

Eastern Europe.

Budapest/Hungary is also among the top European locations in terms of hosting World and European Championships in a variety of Olympic sports. Hungary has organized dozens of such events over the past 20 years.

Finally, it has to be noted that much of the required infrastructure development and sport development is already planned irrespective of the bidding. According to the feasibility study of PWC, Hungary will have spent more than 60 EUR billion of EU funding for the development of infrastructure and transportation by 2024. Moreover, the Hungarian sport facility development program has been accelerated recently. Several big-ticket projects have been scheduled for 2015 such as the project of Dagály Swimming Complex for the World Aquatic Championships in 2017 and the construction of a stadium for the UEFA 2020 championships.

The feasibility study by PWC concluded that *“the Budapest Olympics is a feasible and profitable investment, and the Hungarian application has a good chance at winning the right to organise the 2024 Olympics”*.

Time will tell whether Budapest can win the race. But one thing is for sure. Now after the confirmation of the bidding, the strong commitment of the government to the Hungarian sports industry will be strengthened. A further investment boom is therefore expected, which could certainly create new opportunities for early birds.

Hungary will spend more than EUR 60 billion by 2024

Big-ticket projects scheduled

New opportunities for early birds

## Hungarian state to acquire more energy firms

### New landscape of the Hungarian energy market

*By keeping low energy prices, the government is reshaping the country's gas and electricity market by pushing out foreign utility service providers. The complete universal gas service market is already in the hands of the state. The next acquisition target could be the universal electricity market. Moreover, it is also speculated that the state will buy most of the distributors by the end of 2017 in order to create a vertically integrated state-owned utilities system. Overall, major energy deals are expected which could completely change the landscape of the Hungarian energy market.*

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



In our previous editions, we reported that the retail energy industry is in trouble and accordingly the utility service providers may decide to exit Hungary. Namely, the utility service providers, which are already unprofitable, faced massive price cuts which they were hardly able to sustain. The government required 20% cuts in consumer prices for gas, electricity and district heating in 2013 and further cuts in 2014 of 6.5% for gas and 5.7% for electricity.

The European Commission and other opponents said that the government's intention lead to a situation where a state aid is used to subsidize below market prices which is against European law. On the other hand, the government argued that the price cut is inevitable as utility costs in Hungary present a disproportionally high figure in the aggregate household expenses, unknown in other European countries.

Whether or not its actions are fair, the government continued its strategy to make it unprofitable for utility service providers to stay at the market. Clearly, the aim of the government was to return natural monopolies to the public sector.

As a result of these measures the foreign universal gas providers left Hungary. Now the Hungarian state-owned company, Főgáz has become the sole universal gas provider in Hungary. With much of the foreign-owned universal gas providers bought out, the acquisition of the universal electricity providers will be the next step. Altogether, there are four universal electricity providers in Hungary: ELMŰ and EMÁSZ (both RWE subsidiaries), EDF and E.ON.

Market rumours also suggests that the state is paving the way for a vertically integrated state utilities system. In such a system the state-owned company pursues not just universal service, but also distribution, so that the state can fully control the market, both buying and selling of energy products. Distributors could therefore also be an investment target in the near future.

The press speculates that – by 2017 at the latest – the state may buy most of the

Returning natural  
monopolies to the  
public sector

Universal electricity  
providers as poten-  
tial future acquisi-  
tion targets

distributors: (i) gas distributors, such as Ddgáz and Kögáz (both E.ON subsidiaries) and Egáz-Dégáz (GDF SUEZ subsidiary), and (ii) electricity distributors, such as ELMŰ and EMÁSZ (both RWE subsidiaries) and EDF DÉMÁSZ (EDF subsidiary). It also speculated that the state may borrow nearly EUR 2 billion worth loan from the Hungarian Development Bank to cover the costs of these transactions.

If these speculated acquisitions should materialize in the upcoming years, the Hungarian energy market landscape would significantly change.

Distributors as  
potential acquisition  
targets

New landscape of  
Hungarian energy  
market

The bottom line,  
physical establish-  
ment not required

## Reconsider EU data protection concept

### Landmark ECJ decision regarding Hungarian data protection matter

*The European Court of Justice has recently brought a landmark ruling in the case of Weltimmo vs. the Hungarian Data Protection Authority. The bottom line of this ruling is that even a minimal presence of the company in a member state is sufficient to be subject to local law. The ruling largely extends the scope of local data protection law. Businesses therefore are advised to reconsider their understanding of EU cross-border data protection.*



All privacy eyes have recently focused on the invalidation of the EU-US data transfer framework, "Safe Harbour." But this is not a reason to miss another important and very recent judgment of the European Court of Justice (ECJ): the case of Weltimmo vs. the Hungarian Data Protection Authority (DPA). The bottom line of this case is that even a minimal presence of a company in a member state is sufficient to be subject to the local law. In other words, companies do not require a physical establishment in a member state for local data protection to apply.

### What it is about?

Weltimmo is a company registered in Slovakia, without any Hungarian branch or subsidiary. It operates a website advertising Hungarian properties. It also processes personal data of advertisers under this operation. The advertisements are free, for a 1-month trial period.

At the end of this trial period, some of the advertisers sent a request to delete their advertisements and also their personal data. However, Weltimmo charged the advertisers for the price of its services. As the sums were not paid, Weltimmo also forwarded their personal data to debt collection agencies without notifying the advertisers about this.

The advertisers complained to the DPA. The DPA decided that it is competent in this matter and fined Weltimmo for violating Hungarian data protection law. Weltimmo contested the decision of the DPA by arguing that it is not established in Hungary as a Slovakian company and thus the Hungarian law shall not apply.

In the lengthy battle the Hungarian Supreme Court referred the question to the ECJ in order to determine whether the matter was indeed subject to Hungarian law. The ECJ had to decide what constitutes an establishment under the EU data protection directive which results in the application of the national member state law.

### **What did the ECJ say?**

The ECJ took a flexible definition of establishment, rather than taking a formalistic approach that only incorporated companies are established in the given member state. The ECJ stated that the concept of establishment applies to any real and effective activity, even a minimal one. The ECJ concluded that Weltimmo is established in Hungary, especially taking into account that Weltimmo had Hungarian-language websites targeting Hungarians, a Hungarian bank account and a letter box, and an individual representative permanently present in Hungary.

Local data protection law gets broad territorial scope

### **What will the future bring?**

The decision largely extends the territorial scope of national data protection laws. The decision confirmed that even minimal activity can constitute establishment and accordingly trigger the application of national data protection law.

It could seriously hit online service providers who are registered only in one member state, but in all practicality, operate in many other member states (such as Facebook which is registered only in Ireland). As a general rule, these companies considered that they must comply only with the laws of the country where they are registered. But now there is the possible scenario that they will have to comply with the data protection laws of all member states where they operate (which is potentially in up to 28 countries).

Overall, businesses are advised to reconsider their concept of cross-border data protection. Of course, in case you want to modify your data protection concept for Hungary or you have any questions about the Hungarian implication of this judgment, please do not hesitate to contact VJT & Partners.

Reconsider data protection concept!

# 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 aviation, 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.

We advise clients on international and Hungarian M&A transactions including acquisitions, disposals, mergers and demergers, from deal inception through due diligence and negotiations to post completion. The expertise of our multi-disciplinary team in the areas of corporate, commercial, competition, real estate, employment and regulatory enables us to provide excellent service.

## Employment

The 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.

We regularly advise employers on general employment matters including drafting employment agreements, internal policies, termination agreements, termination notices and complex mass dismissal structures as well as employee incentive schemes. We have particular expertise in managing work permit and business immigration applications as well as advising on the different employment and labour related issues which arise with commercial transactions such as outsourcing.

Our team has successfully represented employers and executive employees in all types of court proceedings in Hungary. In particular, we represent clients in disputes concerning issues which include unlawful termination, overtime payment and bonus claims.

## Technology

Understanding our clients' underlying technical and technological ideas and objectives, while providing clear, concise and practical advice lies at the heart of our work. The phenomenon of convergence and the rapid proliferation of innovative services inspire our Information, Communications & Technology (ICT) team to continue to build unique expertise in a wide range of technology matters.

Our lawyers have particularly strong track record in commercial IT arrangements such as software licensing, call centre and hosting services as well as hardware procurement, online and e-commerce matters such as setting up web-shops. We also regularly advise on sector-specific regulatory issues concerning communications services such as licensing, interconnection and carrier-pre selection.

## 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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