



# **Agri-Food Past, Present & Future Report**

***Hungary***

***November 2005***



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# ***Hungary***

## **Past Present & Future Report November 2005**

### **Overview**

Hungary is home to more than 10.1 million people and is located at the heart of the rapidly growing Central European region. Since its establishment in 1989, Hungary has transformed itself into a strong, stable, and fully functioning market economy. Hungary's commitment and ability to increase trade and foreign direct investment (FDI) at home, has converted it into one of the strongest economies in Central and Eastern Europe.

Successes in Hungary are built on significant structural reforms and privatization, FDI inflows, strong export performance, a sound banking system, and a highly educated and skilled workforce (Euromonitor, 2005).

Hungary is strategically located near other European Union (EU) markets. The country is also an important gateway between Western Europe and the developing East, spanning major transportation routes between Western Europe and the Balkan Peninsula, as well as from Ukraine to the Mediterranean basin.

### **Canada - Hungary Relations**

Canada and Hungary maintain excellent bilateral relations. Canada offered political support throughout Hungary's communist period, has provided monetary aid since 1989, and enjoys a stable trade relationship with the country. Canada has invested more than \$1 billion in Hungary since 1989, or 3% of total foreign direct investment (FDI) in the country. A significant number of Canadian companies have established operations in Hungary such as ATCO, Bombardier, Consultronics, DSC Security Products, GWV Group, Linamar, Maple Leaf Foods International, McCain Foods International, Paradox Security Systems, Seagram, Semex Alliance, and Zenon Systems Ltd.

Canada and Hungary share numerous treaties and agreements, some of which are over 100 years old, governing such areas as air transportation, audiovisual co-production, double taxation, NATO military training, and social security.

Hungary's accession into the EU has increased the demand for new technologies and services. Promising areas for Canadian exporters looking to penetrate the Hungarian marketplace include agri-food products and services, information technology, telecommunications, transportation equipment (including railways and urban transportation), construction and building materials, health-related goods and services, environmental technologies, consulting and engineering services, and advanced technologies.

<b>Canada-Hungary Bilateral Trade (2004)</b>	
<b>Hungary Total Trade</b>	<b>US\$111.9 billion</b>
Exports	US\$54.9 billion
Imports	US\$57.0 billion
Trade balance	(US\$2.1 billion)
<b>Canada-Hungary Trade</b>	<b>\$262.6 million</b>
Exports	\$52.9 million
Imports	\$209.7 million
Trade balance	(\$156.8 million)
<b>Canada-Hungary Ag Trade</b>	<b>\$18.3 million</b>
Exports	\$5.5 million
Imports	\$12.8 million
Trade balance	(\$7.3 million)

- Canada-Hungary bilateral trade totalled over \$262 million in 2004. This value had been steadily increasing from \$241 million in 2002 to \$293 million in 2003, although Hungary's EU accession halted that growth.
- Top Canadian exports to Hungary include medicine (7.6%), non-digital monolithic integrated circuits (5%), and parts of electric sound or visual signalling equipment (4.4%).

- Top Canadian imports from Hungary include computer storage units (11.6%), computer software and equipment (8.8%), and automobile engine parts (6%).

### **Agricultural Trade**

Although total agricultural trade between Canada and Hungary has fluctuated over the past several years, it has slightly increased from \$17.9 million in 2000 to over \$18.3 million in 2004. Canadian agri-food exports to Hungary have steadily increased over the past couple of years, with intermediate and consumer oriented goods representing the majority of exports. Such goods comprised virtually all Canadian agri-food exports to Hungary at 99.9% in 2004. Canada's agricultural exports to Hungary increased by 22% between 2002 and 2003, and again by 46% between 2003 and 2004, mainly due to large increases in intermediate and consumer oriented exports which totalled \$2 million and \$3.4 million respectively in 2004. As of October 2005, total agricultural exports were valued at over \$3.1 million, just \$1.2 million short of October 2004 end totals. Canada currently accounts for 0.23% of Hungary's total agri-food imports.

Canada's agri-food imports from Hungary gradually increased from \$21.6 million in 2002 to \$22.8 million in 2003; however, decreased to \$12.8 million in 2004. Overall, casein and grape wines have remained Canada's top import commodities from Hungary over the past decade, and typically account for over 47% and 24% of total agri-food imports respectively.

<b>Canada's Top 5 Agricultural Exports to Hungary (2004)</b>	
Food preparations	\$1.1 million
Eggs	\$0.760 million
Dog or cat food	\$0.590 million
Whiskies	\$0.564 million
Bovine Semen	\$0.490 million

Complete statistical summary available at: [http://ats.agr.ca/stats/hungary\\_e.pdf](http://ats.agr.ca/stats/hungary_e.pdf)

- Total Canada-Hungary agricultural trade represents approximately 7% or \$18.3 million of total trade between the two countries.
- Top Canadian exports to Hungary in 2004 were food preparations valued at over \$1.1 million and representing approximately 20% of total agri-food exports, eggs at about \$800,000 or 14% of total exports, and dog or cat food worth approximately \$590,000 or 11% of exports. Whiskies and bovine semen accounted for about \$564,000 and \$490,000 respectively, or 10% and 9% of exports.
- 2004 intermediate exports to Hungary totalled just over \$2 million, increasing by \$498,000 from 2003, while consumer oriented exports totalled \$3.4 million and showed 57% growth from 2003. Bulk exports have begun to show improved performance over the last two years and reached \$4,100 in 2004. As of October 2005, total bulk exports were already valued at over \$12,000; a 293% increase over 2004 end totals.
- Top Canadian imports from Hungary in 2004 were apple juice valued at over \$3 million and making up 24% of total agri-food imports, and grape wines totalling more than \$2.5 million or 20% of total imports. Sugar confectionary was another major Canadian import worth over \$1.8 million or more than 14% of total imports.

## **Economy**

Hungary's economy has undergone major changes over the past 16 years, transitioning from a centrally planned economy to one of the most open, pro-business markets in Europe. The country's 2004 entry into the EU has been the most influential factor in shaping the Hungarian economy in recent years, obliging the government to change and introduce new laws in order to secure its admission. As a result, the implementation of a comprehensive privatization program and new commercial laws, in addition to the market seeing an influx of FDI has extensively liberalized the economy. These reforms have made Hungary one of the fastest growing European markets.

Economic developments have transformed Hungary into a very attractive trade and investment partner. Like its central European neighbors, Poland and the Czech Republic, Hungary's monetary policy has paid dividends as the country enjoys a strong currency. Since 1989, Hungary has drawn in an estimated US\$55.4 billion in FDI in areas such as manufacturing, trade, banking, and service facilities. Hungary is regarded as one of the leading Central and Eastern European destinations for FDI, attracting over one-third of all foreign investments to the region.

Moving forward, the Hungarian government must address fiscal spending, inflation and exchange rate instability if it hopes to continue to receive EU support payments which have been important to many economic development and infrastructure projects. However, fiscal policy and stalled economic reforms have taken a backseat to pre-election spending and are not expected to improve until after the expected election in early to mid 2006. These issues may threaten the 2010 target for Hungary to join the European Monetary Union as current economic indicators have worried some in the EU, and such concerns have already caused some minor friction between the Hungarian government and the EU's governing bodies.

<b>Gross Domestic Product (2004)</b>	
GDP	US\$100.3 billion
GDP growth	(2004) 4% (2005) 3.6%
GDP/capita	US\$10,001
GDP/capita (PPP)	US\$15,184

#### Current

- GDP reached a value of US\$100.3 billion in 2004 and is forecast to reach over US\$114 billion in 2005.
- Inflation fell to 3.6% in May 2005 from 2004's year-end total of 5.5%. It is expected to remain stable into 2006.
- The 2004 unemployment rate was

estimated at 6.1%. It reached 7.3% as of September 2005, but is expected to decrease by year-end.

- Hungary was the first Central and Eastern European country to extensively privatize its state-owned industries and companies; the process is now in its final stages. The private sector accounts for over 80% of Hungary's GDP.
- Hungary has seen about 22% growth in GDP per capita (PPP) since its 2000 value of US\$12,431.

#### Forecast:

- GDP growth reached 4% in 2004, led by consumption and fuelled by fiscal expansion and related excessive wage increases (Euromonitor, 2005). Export growth is beginning to rebound and domestic demand is accelerating; however, it will only be enough to support 3.6% growth in 2005. Growth is forecast to slightly rise to 3.9% in 2006 as euro zone activity increases and election year spending revives consumer demand.
- General price levels are expected to increase by 4.4% in 2005 (Euromonitor, 2005).

### **Consumer Market**

There are a number of trends and changes in Hungary's consumer market that are currently impacting exporters' approaches to entering the marketplace. Although the demand for authentic Hungarian dishes remains widespread among consumers with traditional eating habits, healthier foods are becoming increasingly popular. This is primarily due to increasing levels of disposable income allowing consumers to spend more on their health, and the aging population's demand for more high-value specialty products, such as nutritional foods (Euromonitor, 2005).

Consumer expenditure totalled US\$34.4 billion in 2000, and is expected to rise more than 88% to US\$64.7 billion by 2015 (Euromonitor, 2005). It is important to note, however, that consumption patterns are generally dependent on income rather than price. Therefore, as Hungary's economy continues to see improvements, consumption growth should outpace price increases.

As Hungarians increasingly lead busier lifestyles, the demand for processed foods and convenience products is also rising. Fast growing commodities include breakfast cereals, dairy products, frozen foods, ice cream and frozen yogurt, out of season fruit and vegetables, snacks, nuts, and alcoholic beverages (Euromonitor, 2005).

#### **General**

- Approximately 25% of household expenditure is allocated to the purchase of food and beverages. This number has been decreasing in recent years and trending toward that of high-income countries where consumers typically spend 10% of their income on food.

- Thirty-one per cent of total food expenditure goes toward food for consumption outside of the home.
- In 2000, consumers spent US\$6.5 billion on food and non-alcoholic beverages (Euromonitor, 2005).
- Hungary's affluent consumers are increasingly adopting consumption patterns of those in Western European countries.
- Thirty-eight per cent of the population is still considered to have traditional eating habits. Such consumers are typically elderly Hungarians that live in rural areas and are educated to a primary level. The majority (62%) of traditional consumers generally do not try new foods (Euromonitor, 2005).
- Roughly 16% of Hungarians are "modern consumers" that are typically between the ages of 25 and 29, reside in urban areas and come from higher income backgrounds (Euromonitor, 2005).
- Hungarian consumer groups are becoming more segmented as the income gap between the wealthy and poor grows. Due to this difference, consumer demand for cheap food products and expensive luxury items has increased, while sales of medium priced goods have declined.

### **Staples**

- With the growing prevalence of healthier eating habits, Hungarians' consumption of red meat, such as beef, veal, lamb, mutton and goat, has been declining and poultry sales, primarily chicken, have increased. Between 1998 and 2003, per capita consumption of red meat fell by almost 22% to about 8 lb. per capita and that of poultry increased by more than 23% to 66 lb. per capita (Euromonitor, 2005).
- Hungarian demand for fish and seafood is relatively low with per capita consumption between 7.0 lb. and 8.4 lb. in comparison to the EU country average of 52.8 lb. per capita. However, due to rising meat prices consumption grew 9% between 1998 and 2003. Demand for frozen fish, especially breaded products and more expensive restaurant cuts, is on the rise (Euromonitor, 2005).
- Hungarians increased their consumption of most fresh foods between 1998 and 2003. Per capita consumption of fresh tomatoes increased by more than 15%, and that of green vegetables rose approximately 9% (Euromonitor, 2005).
- Among all fresh foods, Hungarians consume eggs the most at an average of 223 lb. per capita in 2003. Potato is another favourite with approximately 160 lb. per capita consumed in 2003 (Euromonitor, 2005).
- Natural products such as granola bars, dried fruit and fruit mixtures, and soybean and wheat-based meat substitutes are becoming increasingly popular. The demand for vitamin enriched and diabetic products is also growing (Euromonitor, 2005).
- Consumption of soft drinks increased by almost 34% between 1998 and 2003. Even more impressive was bottled water consumption, which more than tripled at 154% over the five year period (Euromonitor, 2005).

### **Imports**

- Foreign exporters cannot greatly rely on their products' brands and prices for added sales and profits as in other European countries, since many Hungarian consumers mistrust new products, names, packaging and high prices. However, many wealthy consumers buy high-end goods for prestige.

- Major factors influencing upper-income purchasing decisions include product quality, packaging, and brand recognition. Foreign exporters have had the most successes in targeting this market segment.

### **Retail**

- Retail food sales reached US\$10.1 billion in 2003; an approximate 28% increase over the 2002 total of US\$7.9 billion.
- Fifty-three per cent of the retail grocery sector was controlled by international retail chains in 2003.
- The recent flood of FDI in the retail food sector has resulted in the introduction of hypermarkets and ongoing industry consolidation.
- Fast food outlets and restaurants with ethnic food offerings are experiencing increased growth as consumer lifestyles and tastes become busier and more diversified.

### **Competitors**

As an EU member, Hungary relies heavily on its European neighbours as import sources, making the country a more challenging market for Canadian exporters to penetrate. The nation's strategic location in Europe and lack of natural resources in comparison to other countries has also dictated Hungary's traditional reliance on foreign trade. Competition is intense in all sectors with tough competitors from around the world operating in Hungary. Many market leaders are from Western Europe (e.g. Germany, France, and the U.K.); however, Hungarian firms are becoming increasingly competitive, along with Chinese companies. Hungary's principal import sources, Germany (29.2%), Austria (8.3%), Russia (5.7%), Italy (5.5%), and the Netherlands (4.9%), represent Canada's top competition in the Hungarian export market. High quality and low price products, and excellent services are critical to success.

Hungary's business outlook appears favourable, regardless of greater competition from EU companies and the increasing Hungarian wage. Due to its strong physical and institutional infrastructures, Hungary also remains an excellent location for Canadian exporters looking to enter EU and Central and Eastern European markets.

Specific agri-food products that hold strong opportunities in the Hungarian marketplace include distilled liquors, fruit juice concentrates, spices and condiments, prepared meals, rice, snack foods, tree nuts, meat, seafood, and pet food. Traditional Canadian specialty products such as maple syrup, cranberries and Saskatoon berries, ice wines, herbal teas and mixes, and seed potato also offer attractive prospects.

### **Access Issues**

Hungary remains a country of constant trade and investment interest for Canadian and foreign investors, and holds strong potential for Canadian companies wanting to penetrate the EU and/or Central and Eastern European markets. To facilitate successful market entry, Canadian exporters are encouraged to develop market entry strategies that include working with a local importer and distributor to develop a presence, gain valuable market advice, and best position a product to meet local tastes, laws and pricing.

Hungary is member of the EU, the Organization for Economic Co-operation and Development (OECD), the North Atlantic Treaty Organization (NATO), and the World Trade Organization (WTO), and implements international accords and policies from these bodies. The majority of Hungary's requirements governing imports are co-ordinated with EU regulations, while others are specific to the country. It is recommended that Canadian exporters contact the Hungarian Customs and Finance Guard when checking import duties on individual products.

### **Hungarian Customs and Finance Guard – Customs Information**

Hungaria Krt. 112-114  
1143 Budapest, Hungary  
Tel: (011-361) 470-4121  
Fax: (011-361) 470-4120  
E-mail: [vam.info@mail.vpop.hu](mailto:vam.info@mail.vpop.hu)  
Website: <http://vam.gov.hu/welcomeEn.do>

Hungary's duty structure imposed on imports is highly transparent and stable. Duties apply to all products imported into Hungary; however, duty rates vary according to the product or service and its country of origin.

- In addition to customs tariffs, imported goods are subject to taxes (i.e. value added tax (VAT) and excise tax on some goods). The basic rate of the VAT is 25%, while some food and necessity products have a VAT of 15%, or fall under the reduced rate of 5% depending on the type of product or service.
- Increasing domestic criticism about the country's tax levels has led the Hungarian government to reduce its corporate tax to 16% from 18%.
- The Hungarian government now offers incentives to new investors including lower corporate taxes, tax allowances for research and development, and a development tax benefit for large investors.
- The Hungarian Investment and Trade Development Agency (ITDH) assists foreign companies looking to investment in Hungary. Many tax and subsidy incentives have been put into place to maintain a competitive commercial environment and attract multinational companies.
- Labelling requirements are completely co-ordinated with EU regulations. Product labelling requirements depend on the type of good and its intended use. All consumer products must carry Hungarian labels.
- For more information on customs procedures, tariffs, and labelling requirements consult International Trade Canada – Trade Commissioner Service  
<http://www.infoexport.gc.ca/ie-en/MarketProspect.jsp?cid=205&oid=100>.

### **Business Travel Tips**

Hungarian business customs are very similar to those in North America and Western Europe. Hungarians prefer to first develop a personal relationship on which to later build a business connection. Hungarians are, however, more formal than Canadians and typically use their family names during introductions.

Normal business hours run from 9:00 a.m. to 5:00 p.m., and it is not uncommon for businesses to close by noon on Fridays. Business is commonly done over luncheons, receptions and dinners.



Hungarian is considered one of world's most difficult languages to learn; therefore, even minimal efforts to speak the language are appreciated by Hungarian business people. English is the principal business language in Hungary; however, some small businesses do not have English-speaking representatives. Therefore, one should always determine in advance whether materials and presentations need to be translated, and if business meetings should incorporate a translator. German is also a commonly spoken language in Hungary.

### **Agriculture Sector & Policies**

Hungary's agricultural sector accounts for 6% of the country's GDP and employs approximately 8% of the population; down from 20% in 1985. The agricultural industry is performing well; however, little government attention to modernization has led to the need for better sector infrastructure (Euromonitor, 2005). The introduction of new technology could create more opportunity and increase the sector's productivity.

Hungary's primary agricultural commodities include fruit; vegetables, especially corn, potatoes, and sugar beets; wheat; sunflower seeds; dairy; and meat. Arable land accounts for approximately 50% of total agricultural land, and permanent pastures and crops make up 13% and 2% of this land respectively. There are 2,100 sq. km of irrigated land.

Moving forward, the Hungarian government plans to modernize its agricultural industry, increase food safety, and create an export market development program targeting American, Asian and European markets.

### **Contact Information**

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