

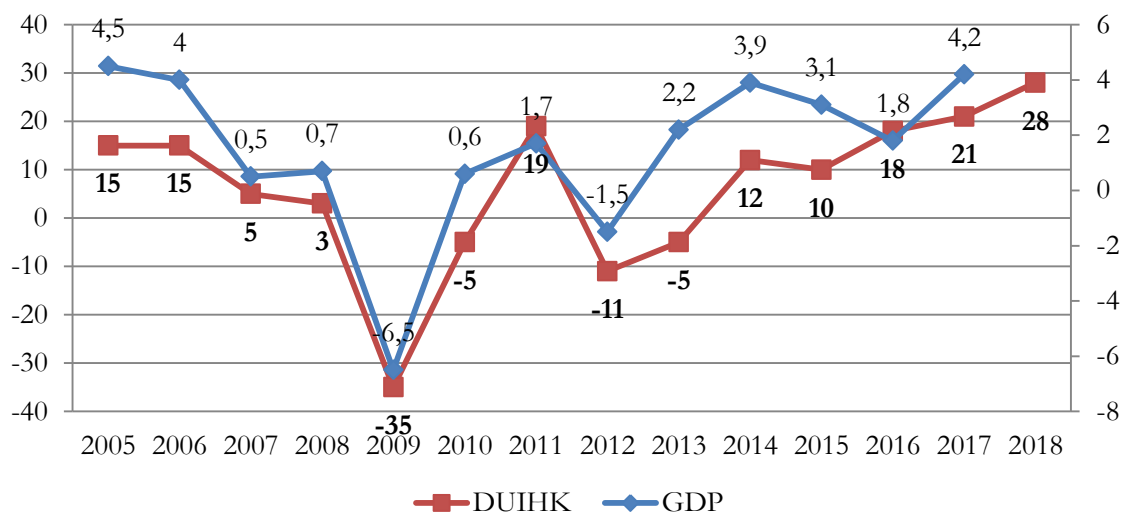


### *German investors remained committed to Hungary*

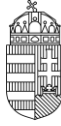
The business sentiment survey of the German-Hungarian Chamber of Industry and Commerce (DUIHK) published on 17 April shows an even more upbeat picture than before. The fact that the share of enterprises which would once again choose Hungary as their investment destination rose to 84 percent signals that German enterprises are content with conditions in the country.

DUIHK have conducted the survey in Hungary, which gives an overview of economic situation and business environment on the basis of responses from the managers of German enterprises operating in country, and concurrently in various countries in the Central and Eastern European region since 1994 and with a uniform methodology since 2006. In the period 1 February- 6 March, DUIHK sent out the survey questions to 205 enterprises. In light of this year's data it can be concluded that respondents were the most upbeat about the current economic situation since 2005 and thus Hungary has not only caught up with regional averages but it has even exceeded them in certain fields. In recent years, the Investor Confidence Index has reliably predicted the performance of the national economy and moved in parallel with GDP growth. This indicator improved from 21 points last year to 28 points now.

**Changes in GDP (y/y, percent, left axis) and DUIHK business sentiment indicator (right axis)**



Source: German-Hungarian Chamber of Industry and Commerce

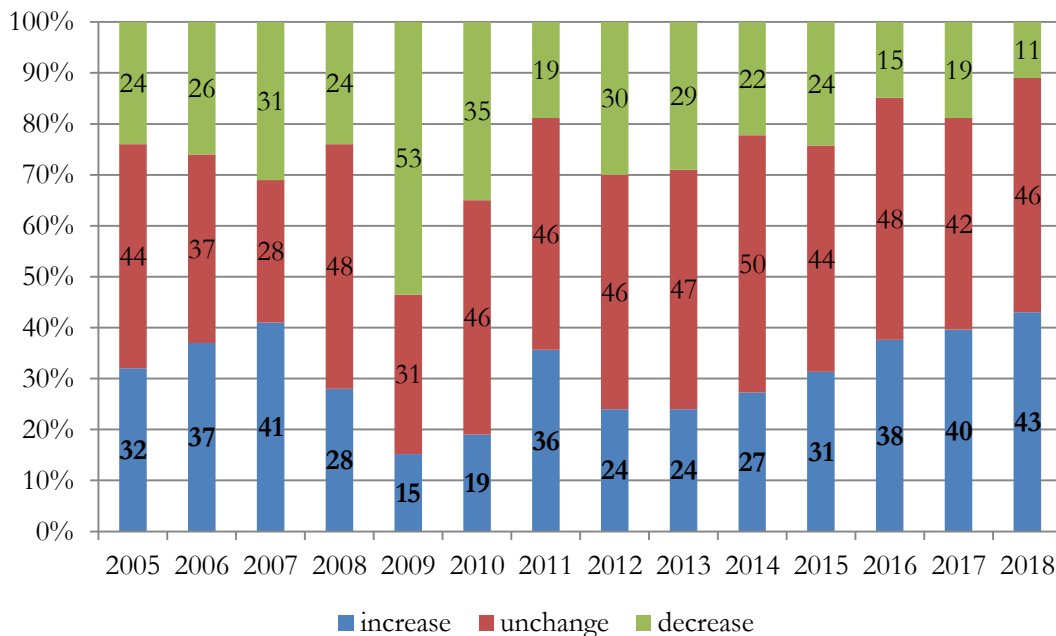


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The Investor Sentiment Index is made up by four sub-indices of various weights: current business situation (10 percent), business expectations (50 percent), investor environment (35 percent) and business sentiment (5 percent).

Thanks to favourable macroeconomic data, respondents found that the economic situation was the best since 2005. This year's developments were also seen as promising; this year's indicator has only been surpassed once before, right after the economic recession in Germany. Enterprises were also optimistic with regard to their own enterprises and sectors: 54 percent of responding enterprises expected business conditions to improve for their company. While half of enterprises polled by the survey predicted that their sector was to expand, 43 percent of them thought that the national economy was set to grow. The positive sentiment was mostly attributable to upbeat expectations concerning revenues: 70 percent of enterprises anticipated them to rise. As a consequence, the share of enterprises planning to increase investment and hire more staff has hit the highest figure since 2000 and 2001, respectively. The companies which expected larger-than-average growth in this aspect were mainly large, export-oriented manufacturing enterprises.

***Planned changes in investment expenses (%)***



*Source: German-Hungarian Chamber of Industry and Commerce*



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Within the category “investor environment”, surveyors asked about opinions concerning economic policy framework, incentives, working environment and labour market factors. The overall sentiment of respondents was positive as far as investor environment is concerned. On the other hand, while over the past couple of years enterprises had been content with labour market conditions and rather dissatisfied with economic policy framework, the trend has changed recently. 72 percent of respondents said they saw rising risks on the labour market. Large export-oriented manufacturers found that the shortage of skilled labour was the largest risk factor.

In order to address this issue, the DUIHK has established close relations with the Ministry for National Economy and the Hungarian Chamber of Commerce and Industry. Enterprises show increasing interest in the dual education system. Company managers named wage tension as a negative factor. This year’s survey shows that labour costs rose by 8 percent. As payroll taxes were reduced by 2.5 percentage points as of 1 January 2018, this resulted in average wage growth of over 10 percent for employees. As a positive development, one can highlight the fact that labour shortages have not had a major impact on investment decisions and flexible labour regulations were regarded very highly by investors. The share of respondents who had a positive impression of taxation policy was also higher, reaching 35 percent. In this regard, however, there was a visible mismatch between large enterprises and SMEs, as the majority of companies in the former category were satisfied with the tax rates.

The optimal operation of an enterprise requires not only an adequate economic policy framework but also good infrastructure and competent business partners. Business environment in Hungary was seen as favourable by managers, and the country was ranked even higher than our regional peers.

84 percent of company managers gave a positive response to the question whether they would once again pick Hungary as their investment destination. In this aspect, the indicator has improved compared to results in recent years, and it shows a figure which exceeds the average of countries in the region which were otherwise highly regarded.