“COVID-19 is the biggest health challenge ever posed to Hungary or the world. Last year was an annus horribilis,” reflects Zoltán Kovács, Secretary of State for International Communication and Relations, and International Spokesman for the Cabinet Office.

In 2019, the second-fastest growing economy in the European Union (EU) increased its gross domestic product (GDP) by 4.9 percent to hit $161 billion. “The Hungarian economy has been extremely dynamic in recent years. We’ve over performed in growth and many other metrics, compared to the EU average,” notes Richárd Végh, CEO of the Budapest Stock Exchange, possibly the most developed capital market in Central and Eastern Europe.

“Hungary was experiencing a boom—a dynamism that is reflected in the performance of our main index, BUX, which has almost doubled in five years.”

As the world starts looking to clearer skies ahead, how has this vibrant, open economy weathered the storm of the crisis? Very well, according to the Hungarian Central Statistical Office’s figures. Although it contracted by 5 percent in 2020, an impressive rebound was recorded in the last quarter of the year. As a result, some analysts now predict record GDP growth of 5-6 percent in 2021. Asked what lies behind this optimism, Kovács replies: “Having a solid economic framework was essential during the crisis, and we were among the first to introduce economic incentives and programs in response to COVID that amounted to almost a double-digit percentage of our GDP. Week by week, we have continued to announce new measures that are cumulatively contributing to our efforts. This is part of our philosophy, which I believe is outstanding in a European context, we are not only concentrating on the immediate effects of COVID, we are also looking at the broader picture.”

The Hungarian government’s strategy for spending the €7.2 billion it will receive from the Next Generation EU coronavirus recovery fund over the next two years illustrates this forward-focused attitude, Kovács believes. “We plan to use the revitalization funding on Hungary’s strategic goals: families, economic investments, growth and jobs. In addition, we will address the main EU objectives regarding the challenges of the 21st century, such as climate and innovation, social reinvigoration and greening the economy.”

Hungary’s latest economic statistics reveal which sectors are rebounding fastest. Firstly, investment inflows have continued throughout the crisis and grew by 4.4 percent in the final quarter. “2019 was a record year for foreign investments and 2020 also looks good. Projects worth billions were announced during the year, as the government has been running a major program helping international and domestic investors to take advantage of the pandemic situation,” he explains. Végh confirms that confidence in Hungary’s capital markets also remains firm. “External investors realize our good economic fundamentals. Nearly 50 percent of the trading volume and turnover generated on the Budapest Stock Exchange is related to international investors.”

The sector with the strongest growth in the last three months of 2020 was construction, which rose by 12.9 percent on the back of incentives for house building and massive transport infrastructure projects. “There has been spectacular development in our road and rail systems, which continues today. We believe that these investments will greatly contribute to the country’s position as a central transport and logistics hub in Europe,” states Kovács.

Hungary’s resilient, export-led manufacturing sector that is the backbone of its economy achieved 2.4 percent year-on-year growth in 2020, while the information, communication and technology sector rose by 6.3 percent in the same period. This is indicative of a move from low-cost manufacturing to value-added manufacturing and services, says Kovács. “We are implementing a paradigm shift, changing the structure and priorities of the Hungarian economy toward innovation and sustainability. To realize this, we are participating in international cooperation, inviting foreign investment and equipping our small- and medium-sized businesses to meet the technological challenges.” The drive for innovation includes a changed approach to research, he adds. “We have a new structure in place that is directly connected to business. Our aim is that the hundreds of billions of Hungarian forints directed to research and innovation should produce more direct outcomes for business.”

Kovács shares the optimism of international investors and analysts about the potential in Hungary’s economy. “When you look at our performance over the past 10 years, and at the number of investors that are coming here from not only Europe and the West but also from Asia, one can only conclude that Hungary is a place with a good outlook.”
“Our return on equity—currently €56.6 million—is over 10 percent. That’s outstanding for a recently launched bank.”

Eva Hegedüs, Chairperson and CEO, Gránit Bank

“The digital genie has been out of the box for a while, but COVID gave it a sense of immediacy. Digitalization isn’t going to go back in its box now, that’s for sure, and I think everyone realizes that’s a good thing,” claims Kevin B. Murphy, CEO for Central Europe at Caterpillar.

Today, Gránit has set up its own fintech and digital development company: GB Solutions, that create value, security and convenience for its customers, which is why it has set up its own fintech and digital development company: GB Solutions, that create value, security and convenience for its customers, which is why its approach has been: it reached profitability in its fourth year, has grown its balance sheet by over 50 percent every year to hit €5.6 billion in 2020, its latest pre-tax profit amounted to €5.6 million and its non-performing loan ratio is 0.04 percent compared to Hungary’s 5.3 percent average. “Also noteworthy is that our return on equity—currently €56.6 million—is over 10 percent. That’s outstanding for a recently launched bank,” Hegedüs reveals.

About 72,000 account holders have moved to Gránit to date. “One reason is that our tailored products and services fulfill every financial need of our retail and business customers, while our expertise enables us to digitalize services faster and cheaper than other banks. We’ve introduced many innovations to the Hungarian market, such as end-to-end online account opening, our pioneering online video on-demand customer service and we were the first in Europe to offer new-generation mobile payment services,” says Hegedüs.

As an innovator, Gránit wants to constantly introduce cutting-edge services that create value, security and convenience for its customers, which is why its return on equity—currently €56.6 million—is over 10 percent. That’s outstanding for a recently launched bank.”

Eva Hegedüs, Chairperson and CEO, Gránit Bank

Banks successfully pass the COVID crash test

In 2020, Hungary’s banking system proved its resilience, while digital specialists continued to forge ahead of the pack throughout the pandemic. Hungary’s robust and modern financial sector has played a critical role in ensuring the economy continues to operate smoothly and by supporting its revitalization.

According to Mihály Patai, deputy governor of the central Magyar Nemzeti Bank (MNB): “The situation is completely different to the last financial crisis. Today’s Hungarian banking system has more liquidity, a strong capital base and it has been extremely active in its response to COVID.” Józsi Benőcs, deputy CEO of the local OTP Bank, explains that “MNB and the government have proactively introduced policies to support the country and banks have been very good at channeling these into the real economy.” One of the most remarkable is the Funding for Growth Scheme (FGS Gető) loans provided by MNB via banks to small- and medium-sized enterprises (SMEs).

Through this €7 billion scheme, as well as a further €1.4 billion worth of programs that include state-guaranteed loans, thousands of companies have been able to fund their working capital.

The nation also benefited from the fact that banks had invested in digitalization in the run up to the pandemic. In March 2020, for instance, the sector was sufficiently advanced to implement the world’s first instant payment system, allowing every bank to enact electronic transfers below €3,000 in five seconds or less. When the impact of COVID began to be felt, this meant that all transactions related to the banking sector were sufficiently advanced to implement the world’s first instant payment system.

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Robert Esik, CEO, Hungarian Investment Promotion Agency

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productivity gains through technology and R&D. Based on IBM’s Global Location Trends report, we are now ninth globally for R&D investments.”

The $4.8 billion in foreign investments gained in 2020 illustrates this shift. E-mobility was the top sector, cementing Hungary’s position as the European choice for manufacturers in that industry, says Esik. “We’ve always been strong in the automotive sector, which represents about 30 percent of our manufacturing output and includes all three premium German brands. Now we are ensuring that the sector remains future-proof.” As part of 2020’s commitments, South Korea’s Doosan is opening its second Hungarian plant and Sensoric is constructing its first factory outside China, with both making electric-vehicle battery components, while Daimler is putting over $312 million into building an electric Mercedes-Benz in Hungary.

The second-biggest target for investors was information and communications technologies. Prominent projects are the first European plant for Chinese computer manufacturer Lenovo and U.S. software specialist Diligent’s new global product development center in Budapest. Chris Grommet, CEO of Hungary’s NNG, a major provider of navigational software solutions, inti surprised firms like Diligent are moving to the capital. “It’s a city with tremendous energy where you can find the technical and innovative talent to create world-class organizations.”

Diverse other sectors also attracted investments—including food and beverage, life sciences, renewable energy and luxury consumer goods—and all have potential for growth. “Manufacturing remains a good investment in Hungary,” counsels Szecskay.
Goose down: A global export and trademark

Abundant natural resources plus advanced production methods have made Hungary an export leader in quality bedding

Renowned the world over, Hungarian goose down is looked at by educated consumers as the ultimate bedding due to its unparalleled softness, warmth and lightweight properties that ensure a perfect night’s sleep. Much of that reputation is down to the work of family-firm Naturtex, which has been producing down- and feather-filled quilts, pillows and other bedding products since 1989. The company started in big growth journey in 2006, explains managing director Balázs Gellért. "Our turnover has quintupled since, our capacity has grown three to four times and our market share has doubled since 2006, explains managing director Balázs Gellért. "Our turnover has quintupled since, our market share has jumped from about 10 to 45 percent. From exporting to around six countries since We've also designed a machine for reclaiming down from old jackets and other items. By washing and sorting this, we can reuse almost 99 percent, which is amazing," enthuses Gellért. He adds that the firm never loses sight of the customer in its innovations. "As an illustration, we've created a treatment for our goods that prevents all types of viral transmission. We've also developed a product called Climate Control that helps regulate body temperature. Our products are not high tech as such, in fact they are as traditional as the need for good rest and sleep! But our manufacturing methods are extremely advanced."

"We only make products that we would use ourselves in our homes—if it isn't good enough for us, it isn’t good enough for our customers." Balázs Gellért, Managing Director, Naturtex

Naturtex's quality mantra extends to innovative production processes that foster sustainability. "We have a green mindset and are determined to be a responsible player. We are ahead of the curve in this and have certifications, such as ISO 1400, endowing our eco-friendly credentials," he notes. For example, Naturtex washes its local and traceable goose down and feathers with natural thermal water and environmentally sound soap, a unique process that actually results in three-times better cleaning than the European average. "We've also designed a machine for reclaiming down from old quilts and other items. By washing and sorting this, we can reuse almost 99 percent, which is amazing," enthuses Gellért. He adds that the firm never loses sight of the customer in its innovations. "As an illustration, we've created a treatment for our goods that prevents all types of viral transmission. We've also developed a product called Climate Control that helps regulate body temperature. Our products are not high tech as such, in fact they are as traditional as the need for good rest and sleep! But our manufacturing methods are extremely advanced."

"We only make products that we would use ourselves in our homes—if it isn’t good enough for us, it isn’t good enough for our customers." Balázs Gellért, Managing Director, Naturtex

Győr celebrates its 750th anniversary this year. How has it turned into such a key center for manufacturing in Europe?

Győr has always been a strong industrial city. Its location is ideal: it is positioned at the confluence of four major rivers and is within the Budapest, Vienna and Bratislava golden triangle, so transport of goods was always easy. After Hungary’s transition to democracy, many of our traditional factories closed. We had to reinvent ourselves and make the city attractive again. In 1992, we created the Győr industrial park. That 210-hectare hub now hosts around 120 companies from 13 countries with 7,000 employees. Audi Hungaria, for instance, has produced 35 million traditional and electric engines here since 1994, making it the world’s biggest engine factory. Audi doesn’t just have an assembly plant in the city, it has full-range vehicle production, research and development. Infrastructure has also developed alongside the park: a port has been built nearby and the Győr-Perisztalnia line has already been extended: a new factory is under construction and another will be opened in the future. We have excellent transport connections by air, water, road and rail.

Apart from its connectivity, why else does Győr attract international manufacturers?

It has a well-trained workforce. Our secondary schools are among the best in the country and Győr hosts the Sajócsvány István University, which has 13,000 students from 54 countries and offers English-speaking programs. It provides practical education, and there is close cooperation between the university and companies. Our taxes are also very advantageous, with our industrial tax being the lowest in Hungary at 1.6 percent.

"Audi doesn’t just have an assembly plant in the city, it has full-range vehicle production, research and development."

Dr. András Csaba Dézsi
Mayor, City of Győr

What sort of a city is it to live in or visit as a tourist?

The industrial park is on the edge of the city, downtown Győr and its beautiful surroundings have superb attractions including three protected forests, a castle, riverside walks and safe bicycle routes. Here people can relax in a stunning natural environment, which is very rare nowadays. We also have one of Hungary’s two most esteemed philharmonic orchestras, a large theater, we hold the country’s biggest free outdoor children’s festival and the beloved Hungarian Dance Festival.

We are now focused on a new, environmentally aware strategy that will determine the development of the city for the next 20-40 years. We have several project ideas for our riversides that take inspiration from Paris, Venice or Amsterdam canals. And we must also rethink transportation: like many cities in Europe, we have too many cars downtown. Planning is ongoing for part of our main railway to go underground and another solution could be developing our suburban rail network; our old industrial railway lines make this feasible. There are huge possibilities for a project on the banks of the Mósa-Danube river as well. Our idea is to build a cultural center that would also function as a theater, conference center, concert hall and as the home of the Ballet of Győr. Overall, we have many ideas for the city and are very open to others.

The beautiful city of Győr celebrates its 750th anniversary
Construction continues to revitalize Budapest

Landmark real estate developments are transforming the Hungarian capital

Between 2016 and 2019, construction was a major driver of the Hungarian economy, with the sector posting exponential growth rates of 20-30 percent a year. Due to many measures taken by the government, including a reduced VAT on newly built residential, the housing sector especially boomed in those years. It seemed like an endless flow of work, notes Balázs Báthory, deputy CEO for innovation at Market Építő, whose annual turnover of around €500 million makes it Hungary’s biggest construction company and the tenth largest in Central and Eastern Europe (CEE).

When COVID-19 arrived at the same time as the preferential tax rate was removed, the sector overall slumped, he notes. “The industry’s new orders fell by a two-digit percentage in the first quarter of 2020 and output also fell.” At the start of 2021, however, Hungary’s curves were swinging into action again: output had risen 11 percent year-on-year by the end of January, while new contracts were up 8 percent on the back of the reintroduction of 5-percent VAT on new housing and expansion government plans to revitalize the economy through construction generally. Market Építő was one of the few whose ongoing projects weren’t impacted by the recent ups and downs in the market, Báthory reveals. “We celebrated our 25th anniversary in January and over those years we have delivered around 750 successful projects while the country has gone through various uncertain periods and a complete economic transition.”

Weaker, less experienced constructors have encountered more difficulties, he believes. “Market Építő has a loyal workforce of around 1,200 people, but others have been affected by a trend for construction workers to move to countries where the nominal wage is higher. We also invest heavily in relationships with our trusted subcontractors and key contributors in order to make sure that we deliver everything on budget and on time.” In addition, the group went into 2020 financially secure, is renowned in the market for its professionalism, reliability and quality, as well as its emphasis on training the specialists of the future by working closely with engineering students at Hungary’s University of Miskolc, he claims. “The industry follows us; so if we don’t innovate, the whole sector will suffer. I’m sure there are only few construction companies that are as good as us in developing and implementing innovations, which is the only way to meet the demands of the market in a more sustainable way.”

Balázs Báthory, Deputy CEO Innovation, Market Építő

Masters of complex building solutions

From Grand Bahama to Scandinavia, Weinberg 93 has been present in the world market for over 10 years

Due to be completed this year, the House of Hungarian Music is one of CNN’s eight “transformative buildings set to shape the world in 2021.” The highly anticipated museum, music venue and education center was designed by Sou Fujimoto and is part of the Liget Budapest Project, Europe’s biggest urban-cultural development that is reinventing the capital’s main park. Among the largely transparent building’s unique features, its steel structure incorporating an undulated and perforated roof stands out in particular.

Founded in Széptekvár in Hungary’s wine-growing Tokaj region in 1993 by CEO István Dercző, the firm focuses on both general contracting and structure fabrication, having built nearly 500 buildings and processed over 100,000 tons of steel for clients around the world. “We offer complete, design-and-build solutions with high added value, providing comprehensive service from concept through design to turnkey delivery. Our prefabricated building and industrial steel structures are manufactured in our own 12,000-square-meter production hall, which is being extended by another 4,000 square meters,” explains Dercző.

But what makes Weinberg 93 so in demand for challenging projects? “Our expertise is paramount. In addition to our highly qualified employees, we put emphasis on training the specialists of the future by working closely with engineering students at Hungary’s University of Miskolc,” he states. At the same time, the business strives for cost efficiency in its projects, while technical innovation is at the core of a company that embraces digitization and robotization. Weinberg 93’s innovative solutions have attracted widespread praise, Dercző notes. “In 2011, for example, we received a Master of Construction Award for an unique light-effecting facade that we developed. We are dedicated to quality, as well as to the satisfaction of our customers and the environment.”

István Dercző, CEO, Weinberg 93

“The construction of Tatabánya Multifunctional Sports Center

The House of Hungarian Music init Weinberg 93’s contribution to cultural development. “We are involved in another element of the Liget Budapest Project, the Museum of Ethnography, which won the World’s Best Public Structure Architecture prize at the International Property Awards. We are working on the fabrication and assembly of its steel structure, which has to support the weight of a five-storey house at both ends,” he states. Mainly, however, the company is involved in complex industrial, logistics and sports facilities. Recently, it has worked for Swiss Crans, Syngenta, Continental Automotive, Festo, Melrec and Wing, among others, with 30 percent of its structural steel

www.country-reports.net
Prior to Hungary joining the European Union (EU) in 2004, the economic blueprints had defined 10 priority transport corridors. Consequently, it is now the continent’s most strategically important cross-border trade routes. Hungary lies at the crossroads of four of them.

Specifically, the country is a node on the land corridors from Germany to Turkey, from Italy’s Adriatic Sea ports to Russia and from the Baltic states to Greece, as well as being on the River Danube waterway that runs from Germany to Ukraine. By 2013, the EU had refined its corridor concept to create major infrastructure development plans for a Trans-European Transport Network (TEN-T), which will seamlessly link all members states through railways, roads, waterways, sea ports and airports. The backbone of TEN-T consists of nine Core Network Corridors that should be fully operational by 2030. Confirming its position as a vital hub for transport and logistics, Hungary is the heart of three of these corridors.

The government is, therefore, plowing investment into infrastructure. “We want to exploit the advantages provided by the country’s geographical location and provide a bridging interface solution between western and eastern countries. Hungary would like to be at the forefront of connected transportation,” Minister for Innovation and Technology László Palkovics, the national railway operator and Hungary’s biggest employee, "In the last 15 years, we have spent more than €4.4 billion on reconstructing and modernizing our network. Within the next three years, nearly 10 percent will operate at speeds of over 140 kilometers an hour.” Hungary’s biggest rail infrastructure development is a €7.6-bilion line from Budapest to Belgrade in Serbia, part of a corridor linking the Balkans to southern Europe.

Other key projects include a high-speed line connecting the capitals of Hungary, Poland, Czechia, Slovakia and Austria, and the reconstruction of routes to Romania, Austria and Croatia that are part of TEN-T. “We are also investing in excess of €2 billion in five modernization programmes to meet the EU’s targets for sustainability,” he notes.

Despite this, criticism regarding traffic congestion on the main road network remains. “There are still 46 bottlenecks, including the motorways M1, M4, M5 and M76,” Palkovics continues. “It’s our responsibility to do everything in our power to increase its market share.”

One of Hungary’s largest public investment companies, the National Infrastructure Developing Private Company Limited (NIF Ltd.) is tasked with modernization and connectivity with, for example, the Trans-European Transport Network (TEN-T), the European-wide system of roads, rail- ways, airports and water infrastructure. Could you illustrate the scale of NIF Ltd’s investments?

I would like to highlight two projects that have important international implications. The first is the Békés-Káli-Lőkösháza project. As part of the TEN-T, it is the single track of railway line between the city of Békászab, in the southeast of the country, and Lőkösháza, on the border with Romania, to be upgraded. The aim is to increase transport capacity and safety while decreasing travel times, so as to achieve efficient and competitive passenger and freight transport on the complex Hungarian section of the complete TEN-T network corridor. Another aim is to establish a two-track international connection with Romania that is in line with European expectations. The project includes the renewal of the existing track, the construction of a second track, the installation of new signal equipment and the installation of European Train Control System (ETCS) Level 2. This will make it possible to increase speeds from 100 to 160 kilometers per hour and axle loads. Conditional public procurement procedures related to the works are in progress. According to our plans, construction will start in 2021 and the project is expected to be completed by 2026.

The second project that I would like to highlight is a public road project. Perhaps the most significant is the construction of a new motorway between Hungary’s motorway M30 that goes between the city of Miskolc and the northeast of the country, and Lőkösháza, on the border with Romania, is to be upgraded. The aim is to increase transport capacity and safety while decreasing travel times, so as to achieve efficient and competitive passenger and freight transport on the complex Hungarian section of the complete TEN-T network corridor. Another aim is to establish a two-track international connection with Romania that is in line with European expectations. The project includes the renewal of the existing track, the construction of a second track, the installation of new signal equipment and the installation of European Train Control System (ETCS) Level 2. This will make it possible to increase speeds from 100 to 160 kilometers per hour and axle loads. Conditional public procurement procedures related to the works are in progress. According to our plans, construction will start in 2021 and the project is expected to be completed by 2026.

Another excellent example of cooperation between the Visegrád Four countries is the Komárom Bridge. As a result of collaboration between Hungary and Slovakia, this provides a new crossing opportunity across the River Danube. In addition, it takes load off the downtown Komárom Bridge and offers a bypass section around the town, thereby improving building conditions in the area and increasing traffic safety. Construction of the bridge started in 2017 and it was opened up to traffic in 2020. Along with regards to cooperation between Hungary and Slovakia, preparations for the development of a new north-south transport corridor started in 2020. A study plan is being created and will be completed by the second half of 2021.

NIF Ltd. is also focused on promoting sustainability in transportation. What are practical examples of this?

The Hungarian government has set the objectives of innovative industry development, vehicle-industry technology shift and autonomous-vehicle testing. As a result, Hungary’s domestic test environment, the Autóipari Próbapálya - Autóipari Próbapálya, was born in Zalegezeg. The interest of vehicle developers has rapidly shifted to testing on Hungary’s domestic test environment, which is in line with European expectations. The project includes the renewal of the existing track, the construction of a second track, the installation of new signal equipment and the installation of European Train Control System (ETCS) Level 2. This will make it possible to increase speeds from 100 to 160 kilometers per hour and axle loads. Conditional public procurement procedures related to the works are in progress. According to our plans, construction will start in 2021 and the project is expected to be completed by 2026.

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Hungarian Public Roads will invest over €1 billion in 2021 to improve its network and make it more accessible. Over the last two decades, domestic and transit traffic on Hungary’s roads has grown dramatically, with the number of cars, trucks and other vehicles traveling on some of its routes doubling.

During that time, the country has invested significantly to ensure its 52,000 kilometers of national motorways, highways and rural secondary roads provide users with smooth, safe, quick and easy journeys, says József Szilvai, CEO of Hungarian Public Roads. The state-owned company tasked with their upkeep. "We maintain and operate this network and, most importantly, we constantly refurbish and renew it. Since 2010, we have upgraded 6,000 kilometers of national roads, while in 2021 alone, a further 3,000 kilometers will be fully improved through a total investment in excess of €1 billion, which is a record for us."

Hungarian Public Roads’ operational responsibilities are also increasing, as the country continues to expand its transport networks. "Within the last decade, over 1,000 kilometers of motorway have been built, along with 1,321 kilometers of other new roads and several hundred more are in progress or planned. Many of these additional highways act as connections to the motorway system, he states. "Our aim is for every Hungarian town and village to be within 30 minutes of a motorway and that will be true for 80 percent of the country soon."

The company is now focused on making its network more sustainable and compatible with new forms of transport. It uses recycled materials in its road refurbishments, for example, and is developing intelligent traffic management systems. "We have a lot of data. If we connect these databases, we can use the insights to reduce accidents and congestion, which creates more greenhouse gases than fluid traffic. In addition, we are at a really interesting turning point in road transportation due to the emergence of e-mobility and autonomous vehicles. We need to prepare for these revolutions and, for that, it's important to have cutting-edge traffic management," Szilvai explains.

Hungarian Public Roads is currently looking to boost the number of electric chargers in rural areas and is carrying out pilot tests of roadside units that connect autonomous vehicles to 5G telecommunications infrastructure, he discloses. "We are trying to foresee where this industry will go and are gaining lots of experience from these pilots, as well as from our extensive cooperation with international partners. My vision is to digitally transform Hungarian Public Roads and for it to become Europe’s leader in transformational transportation."

"To Szilvai, ensuring a top-quality road network is "the alpha and omega of everything. We want everyone who comes to Hungary to safely enjoy its roads."

Strategically positioned for logistics

Capacity and competitiveness are growing in Hungary’s logistics industry, with centrally located assets offering a prime advantage to businesses and investors. Established in 1948, Masped was Hungary’s first logistics company. As a leading player in the sector, how much potential does it offer? Hungary has a strategic location that I believe it hasn’t taken sufficient advantage of until now. Today, we have a chance to develop our infrastructure to increase our influence in Europe. At present, most of the warehousing capacity in Hungary is concentrated around Budapest and the vacancy rate is only 2 percent, less than the European average. I think the current capacity will be enlarged by 20 percent in the next five years. Two big investments are currently being rolled out: the first is a huge container terminal near the Ukrainian border. That will give Hungary a very big advantage as this rail terminal is part of the China-backed Silk Road. In the other large project, the Hungarian government has signed a contract with the Italian government for access to over 32 hectares of land and 300 meters of wharf at the harbor in Trieste. I think this is a great strategy for developing the country’s connectivity and influence.

Turning to Masped, can you give us an overview of the group?

We have a diversified portfolio of more than 20 companies in various industries but our focus is on logistics and our two flagship companies are Masped Logistics and the Budapest Freeport and Logistics Park. Last year, the group achieved revenues of €53 million.

Budapest Freeport and Logistics Park is based around three commercial basins on the River Danube. Among other things, it offers a roll-on-roll-off port, 18 quay berths, container storage, warehouses and office space. What benefits does the facility provide to its users?

We acquired the majority share of this facility three years ago. It covers 153 hectares and is Hungary’s only trimodal logistic terminal, which means it can combine water, rail and road transportation. It has its own railway link and access to a terminal with a yearly capacity of over 350,000 containers. Its biggest competitive advantage is that it’s just seven kilometers from downtown Budapest, so it’s very easy to reach and is connected to public transportation. All of the capital’s other logistics terminals are further out from the center.

Masped Logistics’ unique and complex services cover the whole supply chain, including warehousing, international shipping, domestic distribution and a customs agency. How was it impacted by COVID-19?

It was actually a very successful year for Hungary’s logistics sector, with revenues increasing by 10 percent on average. The lessons from COVID were that you have to be flexible and digitalized. Masped Logistics is a very innovative company, which helps. For example, we utilize technology solutions that enhance the efficiency of our logistics and supply chains, such as self-designed demand-planning software that uses artificial intelligence for replenishing stocks.

How will Masped exploit the growing demand for logistics in Hungary?

There is an opportunity for us to increase Budapest Freeport and Logistics Park’s logistics activities and we have space available to construct over 120,000 square meters of new warehouse capacity. One of our approaches for growth is to build strategic partnerships with our clients and we are also looking at further acquisitions this year to jump speed our growth.
Pharmaceutical exports leapfrog ahead

Figures show the sector is increasingly contributing to Hungary's growth and global scientific progress.

According to Prime Minister Viktor Orbán, "The pharmaceutical industry is one of the Hungarian economy’s driving sectors and it also its most innovative area.”

Dynamic pharma businesses contribute around 6 percent of the country's gross domestic product and saw their production value rise by 5 percent in 2019 to reach nearly $3 billion. "The pharmaceutical industry boasts a long tradition and the country plays an outstanding role in the world's pharmaceutical production,” said Minister of Foreign Affairs and Trade Péter Szijjártó in October, stressing that 86 percent of the sector's products were exported to 129 countries. He noted that these exports had increased in value by 93 percent over the decade to 2019, when they were worth $5.5 billion.

The minister was speaking at the inauguration of an extension to Gedeon Richter’s biotechnology plant in Debrecen, a $130-million production, research and development facility that has helped make the eastern city the unrivalled biotech hub for Central and Eastern Europe. Gedeon Richter is the country's largest domestic pharmaceutical company and one of the most successful in Europe, with over 90 percent of its revenues coming from exports. Many of the world's other pharma giants also have substantial Hungarian operations that employ a total of around 25,000 people. These include French firm Sanofi, which invested about $23 million last year to almost double capacity at a production base in northern Hungary. France is also represented through Servier's ownership of Egis Pharmaceuticals, another huge locally grown company.

In addition to these giants, the country's extensive ecosystem of businesses targeting world health markets contains many smaller and younger Hungarian firms that are carving out successful niches. Key illustrations would be the growing international recognition of Diagon’s in vitro diagnostics and Bio-pharma’s natural dietary supplement Avermar. Innovation is also evident in the country's medtech companies, which include pioneers like RotaChrom that has developed the world's first industrial-scale centrifugal purification chromatography technology platform, a revolutionary purification process with applications in diverse areas such as the pharma, botanical and hemp industries.

The country's scientific excellence has received worldwide acclaim this year, with the Hungarian-born biochemist Karikó Károly leading the research on the mRNA technology behind the Pfizer-BioNTech and Moderna COVID-19 vaccines. When asked about the game-changing innovation that looks like returning normality to the world, Karikó is quick to point out the vital contribution of other Hungarians on her team, including Norbert Pardi, Gábor Bornos and Gábor Szabó. While Karikó must surely become Hungary’s next Nobel Prize winner for her advance of pharmaceuticals, others may follow as the country looks to boost the sector’s productive and research capacities even further. "The government will do everything in its power to keep Hungarian pharma among the best in the world,” Szijjártó confirmed.

Special dietary supplements for cancer patients

A fund for Hungarian exporters to the U.S. is supporting health-technology firms like Biopharma, which can now improve the lives of more people undergoing cancer treatments.

Biopharma has been producing high-quality herbal extracts, medicinal products, dietary supplements and pharmaceutical technologies for over 27 years, but it’s best known for its flagship product, Avermar. Could you introduce this important brand to our readers?

Avermar was invented in the early 1990s and Biopharma was set up to produce it. Avermar is a natural dietary supplement. More precisely, it’s made from fermented wheat-germ extract, and has been clinically proven to be an effective supplement to oncological treatments in the diets of cancer patients.

Among other beneficial effects, Avermar has been shown to support cell metabolic regulation, control glucose metabolism and increase immune-system proficiency. How easy is it for patients outside Hungary to access these benefits and what are your global ambitions for the product?

In Hungary we have around a 40-percent market share in this category and there is a lot of global interest toward Avermar. Currently, we are distributed in over 15 countries and are receiving requests from more locations every month. Biopharma has the support of the Columbia Private Equity Fund, which was created in 2019 by the export-import bank Exim and the Carion Group to support exports from Hungary. That’s one reason why we are now more able to expand and increase our sales abroad.

We are active in North America and are focusing increasingly on Southeast Asia, as we’ll soon be launching Avermar in Malaysia, the Philippines and Bangladesh. However, the U.S. market is our number-one export priority. We have an ambitious goal to double our sales there in 2021 and also plan to set up operations in the U.S. this year. At the moment, we are establishing connections with U.S. healthcare professionals. We are also developing a website for them so that they can understand our products in greater depth; there are more than 60 peer-reviewed medical publications about Avermar that offer significant scientific background. Biopharma has been strengthening its e-commerce tools in general over the last year and we are now planning to take our presence on Amazon to the next level as well.

Avermar is available in film-coated tablets and as a granulate that can be dissolved in water or even in soft drinks, tea, kefir, yogurt, cocoa or milk.

“We want to be more than just a product in our patients’ lives; we want to be a true support to them.”

Dániel Szilágyi, Managing Director, Biopharma

In addition, as a company we want to give back to our society. With that in mind, we are hoping to launch a new communications program within the next few months that helps patients by supporting their mental health. When people first learn that they have cancer, often they can’t immediately process the facts they receive. We want to provide them with all the information they need in an understandable form to help them through this change in life. We want to be more than just a product in our patients’ lives; we want to be a true support to them.

How do Hungarian pharmaceutical companies compete on the global market and how are local products received internationally?

Both forms are manufactured at Biopharma Hungarian facility that is equipped with innovative and ultra-modern technology. How else does the firm ensure consistent quality?

Our factory has European Union certification for good manufacturing practice, which is mandatory if you want to produce drugs. Avermar is not a drug per se, but we still insist on maintaining the highest quality control in our factory. In addition, we have long-term relationships with designated suppliers that provide us with all our wheat grains. So, we control the whole process from end to end: from the fields of wheat to the finished product.

How does Avermar continue to innovate today, and what kind of new research and development efforts are you driving?

Our first priority is the consumer and solving needs that are currently unmet by our products. For example, we are developing a new version of Avermar that we hope to bring to market this year, which will help patients to consume our product more easily every day.

Managing Director

Dániel Szilágyi

Managing Director

Biropharma

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Innovative solutions invented in Hungary to save lives

In less than three decades, Diagon has captured Hungary’s entrepreneurial spirit of invention to become a global player in cutting-edge blood diagnostic products and systems.

Constant innovation and the pursuit of excellence have driven one Hungarian firm to revolutionize global hematology and in vitro diagnostic (IVD) practices.

“Diagon was founded in 1989 by two entrepreneurs, a pharmacist and a chemist. Since then, we’ve gone from being a simple reagent manufacturer to a world-leading systems provider,” says managing director Dr. József Kern.

Today, Diagon supplies its branded products and services to over 75,000 laboratories in all 150 countries through its subsidiaries and a worldwide network of distributors. With extensive factories in Hungary, Austria, Brazil and Indonesia, plus additional localized capacity in India, Russia and Belarus, Diagon also acts as a renowned contract manufacturer.

In 2019 it reached a milestone turnover of €75 million, a figure that is growing by an average of 5-10 percent a year, while its value-added annual productivity per employee rounds out at an impressive 660,000.

“Diagon is recognized as the world’s fifth-largest manufacturer of IVD hematology reagents and among the top-five manufacturers of full range IVD hemostasis systems. Our broad product range covers three principal areas: comprehensive system solutions, genetic reagents and quality control materials. We also provide specialist services and information-technology (IT) solutions to meet the needs of our wide customer base,” Kern outlines.

Within its three areas of focus, the firm’s innovative systems include fully integrated instrumentation, reagents, controls and calibrators for uses varying from point-of-care (POC) tests for clinical and veterinary use to automated systems for high-throughput laboratories. And when it comes to reagents and their quality control products that are developed and manufactured entirely in-house, Diagon is the only provider whose materials are compatible with the hematological and coagulation instruments of all major international suppliers.

One reason for Diagon’s growing status is its reputation for reliably offering premium quality at competitive prices, asserts Kern. “Our state-of-the-art production processes and strict quality control protocols fully comply with ISO 9001, 13485 and 14001. Everything manufactured by Diagon is registered in countries around the world and CE certified in line with European Union (EU) standards—a key priority for us in compliance with EU regulations. Additionally, in 2019 we received certification from the international Medical Device Single Audit Program for our hemostasis products, a landmark achievement and the first step to our selling them in the U.S., Canada, Japan, Australia and Brazil.”

Another substantial reason for Diagon’s success is the constant stream of game-changing, patented inventions that emerge from the Hungarian company’s highly knowledgeable and creative researchers and engineers. “We spend about 10-12 percent of our annual revenue on research and development (R&D) but, more than that, innovation is naturally ingrained in all we do here. We use cutting-edge technologies, including recombinant gene technology and deep-learning artificial-intelligence (AI) programming. Our solutions have driven the latest developments in molecular biology and AI, and are focused on integrating clinical chemistry, hardware, software and IT platforms,” he explains.

As an illustration of how the firm is advancing technology in the sector, its flagship system, Coag XL, is a fully automated hemostasis testing solution that can be synced to the cloud, states Kern. “Most recently, we have started to plan a rollout of our unique AI-powered digital-diagnostic Hemocular platform for the analysis of blood smears. We are launching a new system in our Cellagon automated hematology instrument line and, over the course of 2021, we will be adding three more specialty coagulation tests to analyse the causes of bleeding disorders and monitor treatment.”

Digital diagnostics are the future of the clinical IVD industry, he asserts. “Our Hemocular platform, for example, will offer small clinics, large labs, family and veterinary doctors alike faster and more accurate results at a significantly lower cost compared to traditional microscopic procedures. It is also well positioned for developing countries and will come with excellent training materials.” Asked to sum up why the company has made such an impact, Kern concludes: “Diagon is synonymous with the latest and the brightest technology in our field. Our products are invented in Hungary rather than just being made in Hungary—a value proposition born out of the entrepreneurial spirit that is so inherent in our native country.”
Energy giant steps up its climate commitments

Hungary’s MOL Group is shaping a future for the worldwide hydrocarbon industry by accelerating its plans for sustainable investments

In 2016, the vertically integrated Hungarian oil and gas giant MOL Group took a sector-leading position in the global shift to a greener economy when it introduced its MOL 2030 Strategy to transition from a traditional hydrocarbon operator to a more sustainable, lower-carbon business model. Where other oil companies just talked about the need for change, Hungary’s biggest enterprise took successful and credible actions across all of its activities. Over the last 18 months, however, European demand for fossil fuels has fallen even faster than anyone expected. Once again, MOL has been among the first to reposition itself for the future by launching its new “Shape Tomorrow” MOL 2030+ Strategy in February. According to György Bacsa, senior vice president of MOL Group Strategic Operations: “It’s a comprehensive update of our 2030 strategy. Last year became obvious that we had to thoroughly revise our targets and priorities as the green-energy transition is speeding up considerably. Our main strategic direction, namely our diversification of production from fossil fuels toward chemicals, has proved to be progressive and valid, but we realized that we have to accelerate our group’s transformation. The economic and pandemic crises came as an additional challenge and push to change.”

Hungary’s MOL Group is shaping a future for the worldwide hydrocarbon industry by accelerating its plans for sustainable investments

The fuel-to-chemical transformation

MOL currently operates three refineries and two petrochemical plants in Hungary, Slovakia and Croatia that are among the most efficient and profitable in Europe. Over the next ten years, it aims to invest up to $4.5 billion in two waves in order to reduce its major fuel output in favor of petrochemical feedstocks, which should make MOL the leading sustainable chemicals company in Central and Eastern Europe (CEE). The firm’s largest investment so far in this direction has been $1.5 billion in an environmentally friendly Hungarian production plant for polyol—hitherto high-demand organic base component of polyurethane—which is almost complete. “We began getting ready for our fuel-to-chemicals transformation in 2016,” Sverla explains. “We are now at the point of having a very short list of the best-fitting technologies to transform up to 2 million tons a year of fuel production into chemical products in a cost-efficient way. We want the plants built in our first investment wave to be operational by 2027 and we will make the final selection of the technologies for this in 2021. Before the end of the decade, we would like to finish the second investment wave as well. This is a significant acceleration of our downstream strategy.”

MOL 2030+ Strategy

MOL also owns almost 2,000 service stations across 10 CEE countries and is the biggest fuel retailer in four of those markets, with a substantial brand presence in the others. These outlets are undergoing transformation too, turning MOL into a best-in-class consumer goods retailer, plus greener fuel and comprehensive mobility service provider for the region. For this, the group is investing in digitalization, says Bacsa. “To be dynamically in line with changing customer preferences and purchasing patterns, we need precise and relevant data plus advanced analytics tools. Digitalization enables us to offer more relevant products and services to our customers, through which we can increase their satisfaction. It also makes our operations more efficient and reduces waste.”

Investing in the circular economy

At the other end of the value chain, MOL is engaged in hydrocarbon production activities in nine countries and has exploration assets in 14. As well as seeking greater efficiency from upstream operations, MOL has committed to making these carbon-neutral in terms of Scope 1 and 2 emissions by 2030. It also intends to utilize its expertise in the gology of the Pannonian basin, which covers much of Hungary, to become a major player in carbon capture, utilisation and storage (CCUS)—some of the vital emerging technologies that the world needs to embrace at scale if it is going to meet its climate-change goals. All together, MOL will invest $1 billion in diversifying into new, low-carbon and sustainable businesses by 2025. “Several areas are competing for the funds. In addition to CCUS, waste integration and utilisation, sustainable petrochemical investments, second-generation biofuels, low-carbon energy and hydrogen-related opportunities are all in the picture. How much will go to which area will be defined by several internal and external factors,” Sverla states.

“The on one hand integrating new activities such as these into our operation is essential for reaching our vision: be to a regional leader of the low-carbon circular economy in CEE,” adds Bacsa. “On the other hand, we have to be very focused and selective regarding new business opportunities, we shall prioritize only those investments that foster achieving our vision. We don’t have much time to start decreasing our carbon footprint, so we will primarily focus on already available solutions that can be applied at commercial scale.”

To ensure this happens at the urgent pace required, MOL has a dedicated investment team to identify, assess and manage acquisitions, partnerships, licenses and technology transfers. This approach has helped the group take significant recent steps toward its circular economy goals. For instance, it has acquired Aurora and cooperates with Metals, two German compounding businesses that specialize in different types of plastic recycling; it has a strategic partnership with another German technology company, APK, for solvent-based recycling; and it has formed a joint venture with Japan’s JR to manufacture high-quality synthetic rubber in Hungary. Based on its own patented technology that was developed in collaboration with the local University of Pannonia, MOL has also invested over €11 million in a rubber bitumen facility that can convert about 500,000 used tires a year into road building materials.

As Bacsa points out: “In the longer run, further developments in technology are needed to achieve our net-zero emission and other long-term environmental and sustainability targets. Therefore, we are involved in early phase research projects, startup incubations and we have created science parks with regional universities to support innovation. We run a venture capital fund to finance the growth of innovative companies as well.” In addition to funding new sustainable business opportunities to the tune of $1 billion, MOL plans at least another $2.5 billion in transformational investments by 2025. Conservative analysis of its resilient and balanced business model suggests that, not only can the group easily fund this, but that its robust balance sheet will continue to allow the provision of predictable dividends to shareholders throughout this transformation.

“MOL 2030+ Strategy”

The pathway to profitability with net-zero carbon emissions

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“MOL 2030+ Strategy”

The pathway to profitability with net-zero carbon emissions

MOL has always strived for the wellbeing of populations affected by its operations by having open pathways of communication with local community stakeholders. Now it believes that even stronger and wider cooperation is needed for the world to transition away from carbon, says Sverla. “Companies can deliver solutions to combat climate change, but they can’t win the fight alone. For that, we need commitment from society as a whole. We need consciousness from consumers and effective policies from governments to set the right frame for companies, so we are able to develop and implement climate-friendly solutions.”
NEW PLAYERS SET NEW STANDARDS

Hungary’s domestic energy goals are attracting investors with innovative and sustainable solutions

Much of its renewable portfolio is based on solar and Alteo plans further investments in that area. “The government is strongly pushing for solar generation to reach 6,000 MW by 2030 and 12,000 MW by 2040,” he explains. “Gas investments remain important as well. Weather-dependent renewables are hard to predict. You need flexible capacities to balance electricity demand and supply. For that, we use natural gas. The more balancing we can do, the more renewable capacity we can implement. There’s huge synergy among all our assets and this is the soul of our whole concept.”

Alteo’s flexibility was boosted in 2019 by a 6 MW grid-connected battery, the first of its kind in Central and Eastern Europe. This was an important step toward combining its smaller plants into one large virtual power plant that has already made it one of the leading national providers of balancing services. Chikán believes that Alteo’s sustainable and innovative business model will continue to succeed in Hungary. “We certainly have much to do in the next 10 years. Being sustainable is now a rational business decision and companies continue to succeed in Hungary. “A paradigm shift is taking place as agricultural subsidies are steered toward efficiency,” says CEO Lévente Stábi. “Within a decade, digitalization will be widespread in Hungarian agriculture’s technological solutions and business processes.” The new focus is also evident further up the food chain. In March, for example, Coca-Cola HBC Hungary renewed its 2012 strategic cooperation agreement with the government and announced investments that will make it Dunaharaszti plant near Budapest the largest Central European manufacturing hub in the Coca-Cola system. Within the agreement, the company asserted its commitment to collaborate on building a Hungarian food and beverage industry that is fit for the future. In the following interview, general manager Laszlo Bekéfi reveals how the drink giant is doing that.

Coca-Cola HBC Hungary is part of Coca-Cola HBC, the Hellenic group that operates in 28 countries. How important is it to the country?

“The first Coca-Cola bottles entered Hungary in 1968. Today, we are the largest soft-drink bottler in Hungary and one of the largest food processing companies. So far, we have invested around €400 million in the country. We have two factories: one in Dunaharaszti, where we produce soft drinks, ice teas, juices and energy drinks, and one in the west, where we produce our mineral water brands. We employ over 1,050 people and, indirectly through our production and supply chains, we provide jobs for nearly 13,000 in Hungary. We export our products to 26 different countries but nearly two-thirds of our production comes from domestic suppliers, so we very much support the local economy. In 2019, we generated €30 million from our portfolio of beverages and 79 percent of our payments to suppliers went to local business partners.”

What are some ways in which you are contributing to Hungary’s goals?

Innovation, investments, research and development are fully connected to our vision to be the leading 24/7 beverage partner for our customers. As an example of product innovation, in May 2020 we launched Costa Coffee with the ambition of achieving a 20 percent market share of the Hungarian premium coffee market within a year. Another recent innovation is AdGe, our company’s first-ever paper-bottle prototype will soon have a trial in Hungary. This is a step toward a much more sustainable way of operating and a circular economy. Hopefully it will be an inspiration to other companies.

We are also contributing to the digitalization of the Hungarian food industry through developments in line with Industry 4.0. In 2021, we will be the first country within Coca-Cola HBC to introduce robotic technology in production, which will support our warehouse operation. We will continue to invest in efficiency and modernization in our production plants and distribution. In terms of talent development, we have a strong relationship with Hungarian universities: we run collaboration projects, support and develop talented students, and recruit the best talents from higher education.

“By 2021, we will be the first country within Coca-Cola HBC to introduce robotic technology in production.”

Laszlo Bekéfi, General Manager, Coca-Cola HBC Hungary

How did COVID-19 affect your activities?

Our three priorities were the health and safety of our employees, business continuity and supporting our communities. During the crisis, we could see how much Hungarian citizens were in need. There were several things that we did, including providing business developers to the Hungarian Red Cross to help with logistics. We also offered our advertising spaces, social media channels and marketing people to the Red Cross for public service announcements, and we put together a campaign to help the hospitality-sector reopening in summer 2020. We believe our business success depends on the wellbeing and strength of the communities where we are present. Our responsible operations demand that we react to their needs.