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04.11.2019

Tags: Hungary, Association, AmCham, Investment

Irisz Lippai-Nagy, CEO of AmCham Hungary, shares insights on the drivers contributing to economic growth in Hungary, recent policies and reforms, the role of the association, and policy recommendations to facilitate ease of business.

Can you tell us what the drivers behind Hungary's economic growth are?

Hungary's growth is the result of very cautious economic policies implemented by the government over the past decade which aimed to create jobs, reduce the unemployment rate, and offer favourable and stable conditions to foreign investors. This has led to an increase in investments year on year, mainly benefiting the manufacturing sector and the automotive industry.

However, to remain competitive we needed to devise a sustainable long-term plan. As a result, through liaising with our members and advocating with the government, supporting R&D in pharmaceutical and other value-added industries has become the focus of AmCham's policies. The government subsidizes industries and offers support to companies that want to develop or expand their R&D capabilities.

What sectors are the most attractive for international companies and American ones?

Historically, automotive manufacturing has always been important for Hungary and the presence of Audi, Mercedes, and now BMW is a testament to that. More recently, there has been an increase of investments into Tier 1 & 2 industries, which attract further corporation and knowledge sharing activities. For example, innovation and research hubs are being established in Hungary by the likes of Bosch, Siemens, and Continental. In turn, universities are linking with these hubs and cooperating with industry leaders across key sectors. Furthermore, the business services sector is witnessing rapid growth, employing more than 50,000 people. A wide range of companies have set-up strategic business service centres here in the country.

The transactional processes that were brought to Hungary ten years ago are now being outsourced, which is rendering the workforce to a more complex and higher value-added one. In life sciences for example, Sanofi is expanding its operations here in Hungary. As a company in a highly regulated industry, the expansion of its investment in the country well illustrates this trend. American life sciences and pharma companies have made similar investments over the years, as seven of the top 50 pharma multinationals are present in Hungary as well.

What do you see as the strengths of Hungary to capture American international investments?

The quality of local talent and their linguistic skills are strong drivers that attract American and international investments to Hungary. Although the country has a talent base of qualified experts across key industries who can cater to an international audience, the size of this talent pool is still lacking. For example, in the IT sector, Hungary has many engineers and salaries are competitive compared to European standards. However, the resources and time required to find enough employees can be quite extensive for companies.

The difficulty to fill positions is also partially related to increasing salaries. 2018 saw a 10.7 percent increase in gross income compared to the previous year. This is a trend that is happening in other countries as well, and it is especially substantial for educated white-collar employees whose salaries have been rising significantly due to the demand for their skillset. Nevertheless, this is also a strength for Hungary as it is not enough to just look at salaries at face value. The buying power associated with your income is higher than in Europe, as the cost of living is lower. From a personal and corporate point of view, rent—which is one of the biggest expenses—is cheaper than in the western part of the continent. Hence, this makes Hungary attractive and competitive. Nevertheless, we admit that there is a continuous increase in salary and to compensate that, there

is an agreement between the employers and the government that every year the social contribution tax paid by the employer on salaries is diminished by 2 percent.

What are some key reforms that have been implemented in recent years?

For international investors and businesses, the most remarkable reform has been the establishment of a nine percent corporate income tax, which is the lowest in Europe. As mentioned earlier the predictability of the social contribution tax decrease reduces the cost of labour for companies. Additionally, there has been greater governmental support for incentivizing R&D projects.

Together, these policies and decisions aim to create a more stable and favourable environment to attract foreign direct investments in Hungary. The focus of the government shifted three years ago, from the creation and maintenance of jobs to now supporting investments which are innovative in nature.

Can you tell us some of the recommendations that can benefit growth?

Every year AmCham issues a document called “Cooperation for a More Competitive Hungary” where we highlight the policy agendas identified on behalf of, and in collaboration with, our members. We have an annual cycle where committees and policy task forces are respectively working in their area of focus—investment, competitive workforce, innovation, and digitalization—postulating recommendations. To enhance effectivity, we also work closely and regularly with the office of the Ministry of Innovation and Technology, as well as Finance, while we meet with two state secretaries respectively every quarter. Furthermore, throughout the year we have business forums with ministers to discuss our recommendations in detail

There are some recommendations that we know will take time to implement, similar to the nine percent corporate income tax, which took several years of advocating to finally achieve. Currently, companies may decide to dedicate a certain amount of the corporate income tax to sports institutes however, we are continuously lobbying to expand this to education and health institutes as well.

Furthermore, companies must contribute to vocational training. AmCham advocates for a split: one part of the sum going directly to the central budget and the other remaining at the discretion of the

company either to support schools or develop their own workforce. Another recommendation comes directly from the Association of Innovative Pharmaceutical Manufacturers (AIPM), which highlights that clinical research is an important part of the healthcare innovation ecosystem. Therefore, we advocate the recognition of research carried out abroad to be acknowledged among as a tax benefit factor as well.

What are some tangible actions that Hungary can take to facilitate ease of business?

One factor that would improve the ease of business would be to diminish bureaucracy and improve the government's digital services. Currently, companies must pay various taxes to respective government accounts. Instead, it would be more efficient to have a centralized account that would partition the percentages automatically. At the intersection of these two fields—government and digitalization—the right processes are in place but not the best application. This is an example of a relatively small amendment that could have a huge impact.

How do you work with small and medium-sized American companies to help them set up a footprint in Hungary?

Usually, the process for a company to come to Hungary takes one to two years: from the moment they consider the country to finalizing their decision. AmCham is not usually involved in this process as most companies have several prospective countries in mind and only reveal their decision when it is final. During that time, the liaison is the Hungarian Investment Promotion Agency (HIPA). We collaborate closely together and share our experiences to facilitate the introduction of new companies to the country.

Companies seldom seek AmCham memberships in their first years, as they are mostly focused on setting up their footprint and recruitment. Nevertheless, we invite companies to AmCham events throughout the year, visit them, and begin to build a relationship early on. The support and services AmCham offers always come at the speed and the request of the company.

Do you have upcoming projects or new initiatives that you are launching?

We recently launched a novel cooperation amongst 20 competing industry leaders to create the image and to improve visibility for US financial institutions and the business services sector. Unlike

a doctor or a baker, the job scope in a service centre remains unclear and misunderstood, and these companies are struggling to make themselves known to potential employees.

Additionally, AmCham participated at one of the biggest job fairs organized by Heti Világgazdaság (HVG), Hungary's leading economic and political weekly, where our BSS Project had its own section where we introduced this growing industry, conducted roundtable discussions to talk about importance of sector to the economy, the vast career opportunities it offers and what it is like working at these vivid business centers.

Do you have any final comments?

Hungary has a vibrant community and is very dynamic in terms of market development. It is a great country to conduct business while balancing an enjoyable private life.

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