

# **Overview of the economic landscape of Hungary**

## **Trade Mission by Enterprise Ireland**

Budapest, April 26, 2007

*CEMI's and PMC's partners have very extensive restructuring experience in the banking and energy industry in Central Europe*

## World class experience

### Tibor Héjj (PMC, CEMI Advisory Board Member)

#### Background

- **MBA**, Vanderbilt University, USA
- **M. Sc. E. E.** in electrical engineering, specialist engineer in digital technology (Bp. Tech. Univ.)
- Co-founder of **Műszertechnika**
- 6 years at **The Boston Consulting Group's** Munich and Bp. office
- Int'l vice president of **A.T. Kearney**
- Managing owner of **Proactive Management Consulting**



- **Social responsibility:** founder of a resort for the handicapped ([www.fecskepalota.hu](http://www.fecskepalota.hu)) and Sunflower Non-profit Company ([www.napra-forgo.hu](http://www.napra-forgo.hu)), employing 50+ handicapped; lecturer in business ethics

**Industry specialist in:** energy/utilities and ICT

**Expert in strategy:** corporate strategy (market-entry, expansion, M&A), strategy-driven restructuring (PMI), strategic sourcing, innovation management

**Solution-coach** of highly complex projects: CEO coaching, national and EU grants, interim management

### Krisztián Orbán (CEMI partner)

#### Background

- **MBA**, M.I.T., USA
- 6 years at **McKinsey & Co.**
- Work experience in Hungary, United States, Sweden, Estonia, Poland, Russia, Bulgaria, Romania
- **Co-founded CEMI**, a regional leader in management consulting
- **Regional Partner of AAI**, a private equity fund with USD 250 million assets under management

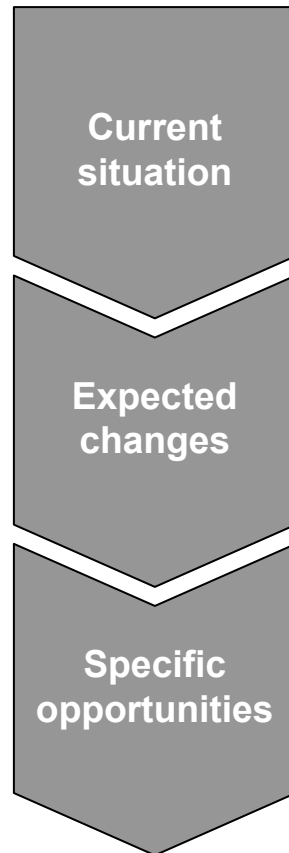


#### Examples of projects conducted

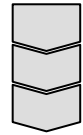
- Participated in five >USD 250 million **acquisitions in banking and industry** (financial modeling, due diligence, business planning)
- Led **market entry and expansion strategies** in half-dozen industries in Central and Eastern Europe
- Led two **comprehensive industrial restructurings**
- Led two **cross-border sales stimulation** projects (chemicals, FMCG)
- Served as deputy CEO for a leading regional chemicals group

*Due to current reforms and the EU transfers, in some sectors significant expansion is expected*

## Overview of the economic landscape of Hungary



- In the last few years Hungary underwent a period of moderate growth and high macroeconomic instability
- The accepted convergence program aims at restoring macroeconomic stability
- EU transfers generate significant new opportunities for the entrepreneurial sector
- There are some industries which are particularly well positioned to take advantage of the improving environment



*Hungary is medium sized economy, which recently underwent a period of moderate growth and high macroeconomic imbalance*

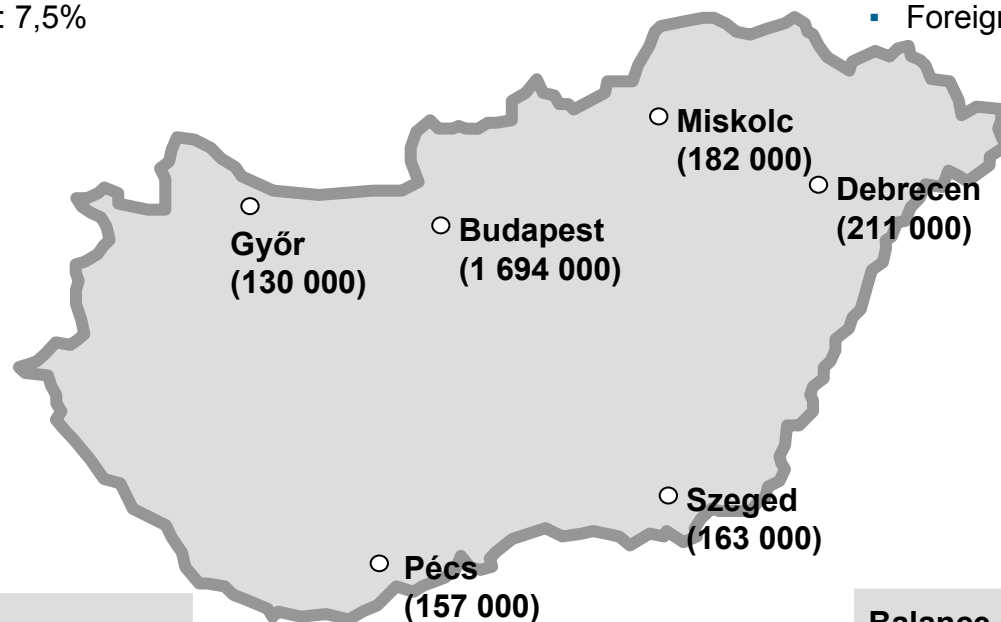
## Main economic data of Hungary (2006)

### Demographic and Employment Information

- Population: 10,06 million
- Participation rate: 55,1%
- Unemployment rate: 7,5%

### Macroeconomic indicators

- Inflation: 6,5%
- Fiscal deficit: -9,6%
- Foreign debt: 68,5%



### Size of the Economy

- Nominal GDP (EUR mn): 89 160
- Real GDP growth rate: 3,9%
- GDP per capita (EUR): 8 900

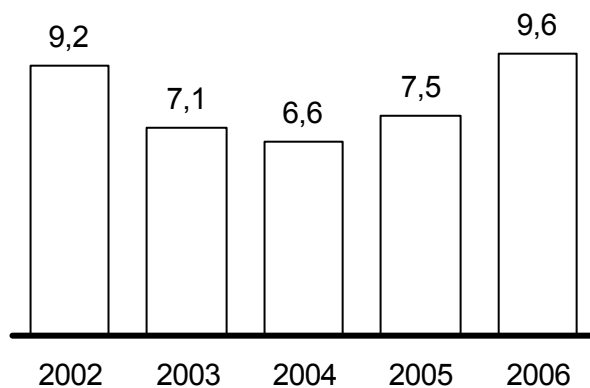
### Balance of Payments

- Exports (EUR mn): 69 521
- Imports (EUR mn): 68 753
- Current account deficit: -5,0%

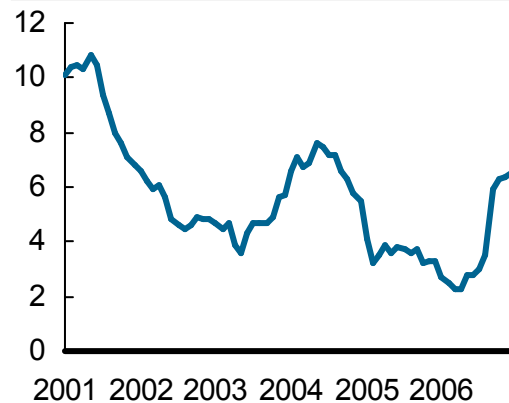
*Despite increasing fiscal deficit and inflation rate, the Hungarian exchange rate remained stable in the past few years*

### Macroeconomic stability of the Hungarian economy

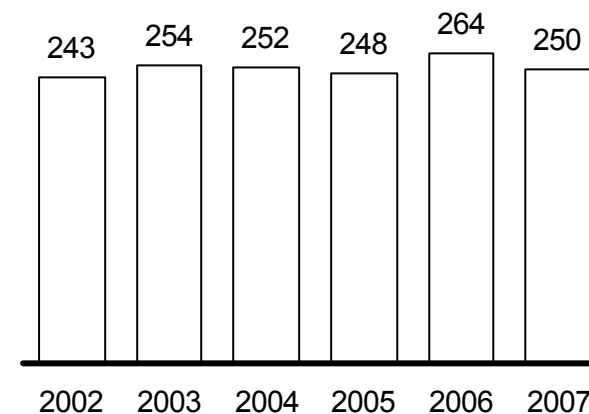
**Fiscal deficit (% of the GDP)**



**Inflation rate (%)**



**Exchange rate (HUF/EUR)**



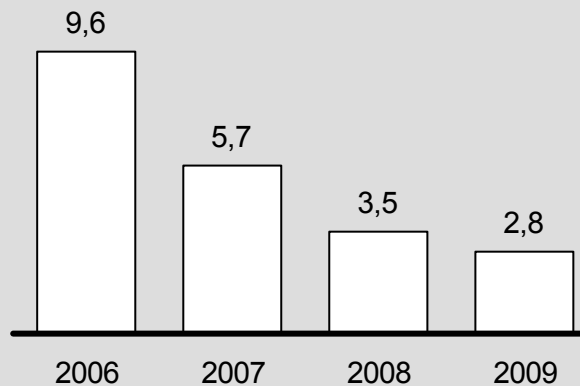
*If implemented thoroughly, the newly introduced convergence program will restore the stability of the most important macroeconomic indicators*

## Convergence program of Hungary (2006-2009)

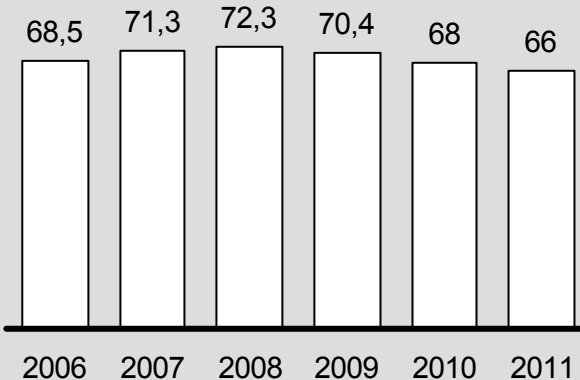
### Main measures of the convergence program

- Lowering government expenditures: reform of public services, health, education
- Increasing government revenues: increasing VAT, corporate and personal income taxes
- Increased fiscal transparency

### Fiscal deficit (% of the GDP)

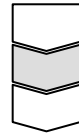


### Foreign debt (% of the GDP)



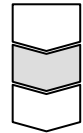
### Expected effects of the convergence process

- Decreasing GDP growth
- Decreasing inflation and real wages
- Stable macroeconomic environment



*Another important new element of the economic situation is the start of massive EU structural fund inflow*

## EU structural fund subsidies



### EU subsidies

- Hungary will receive EUR 25 bn in EU transfers in the next 7 years
- More than 10% of these funds supports the entrepreneurial sector directly

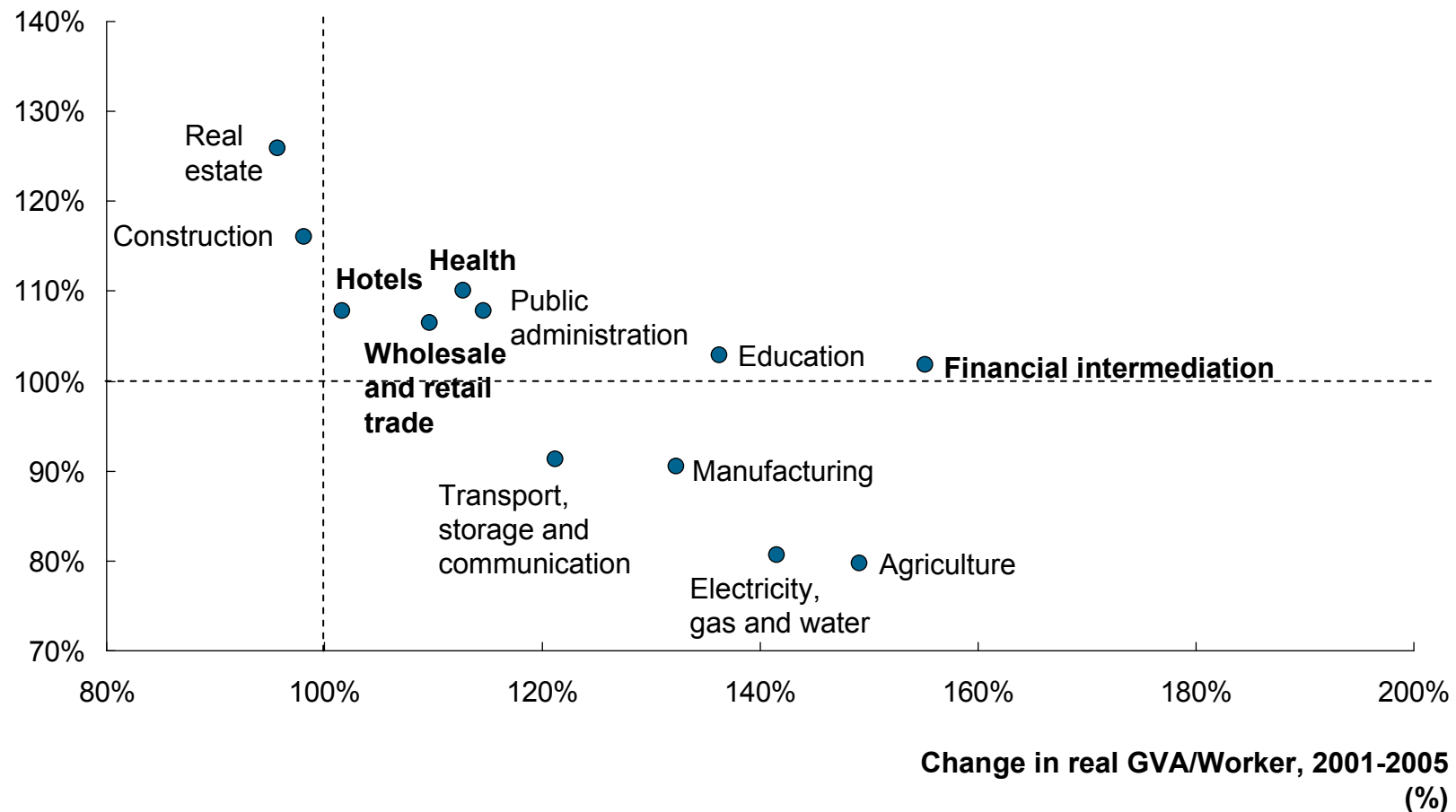
### Supported activities of the entrepreneurial sector

- International and interregional cluster initiatives
- R&D infrastructure, R&D activities
- Improvement of cooperation networks between SMEs
- Improvement of cooperation networks between SMEs and other businesses, universities, regional authorities, research centres etc.
- Investment in firms directly linked to research and innovation

*The non-tradable sectors have been beneficiaries of the last few year's economic climate, moreover they will be significant beneficiaries of EU transfers*

### Change of productivity and employment by industries

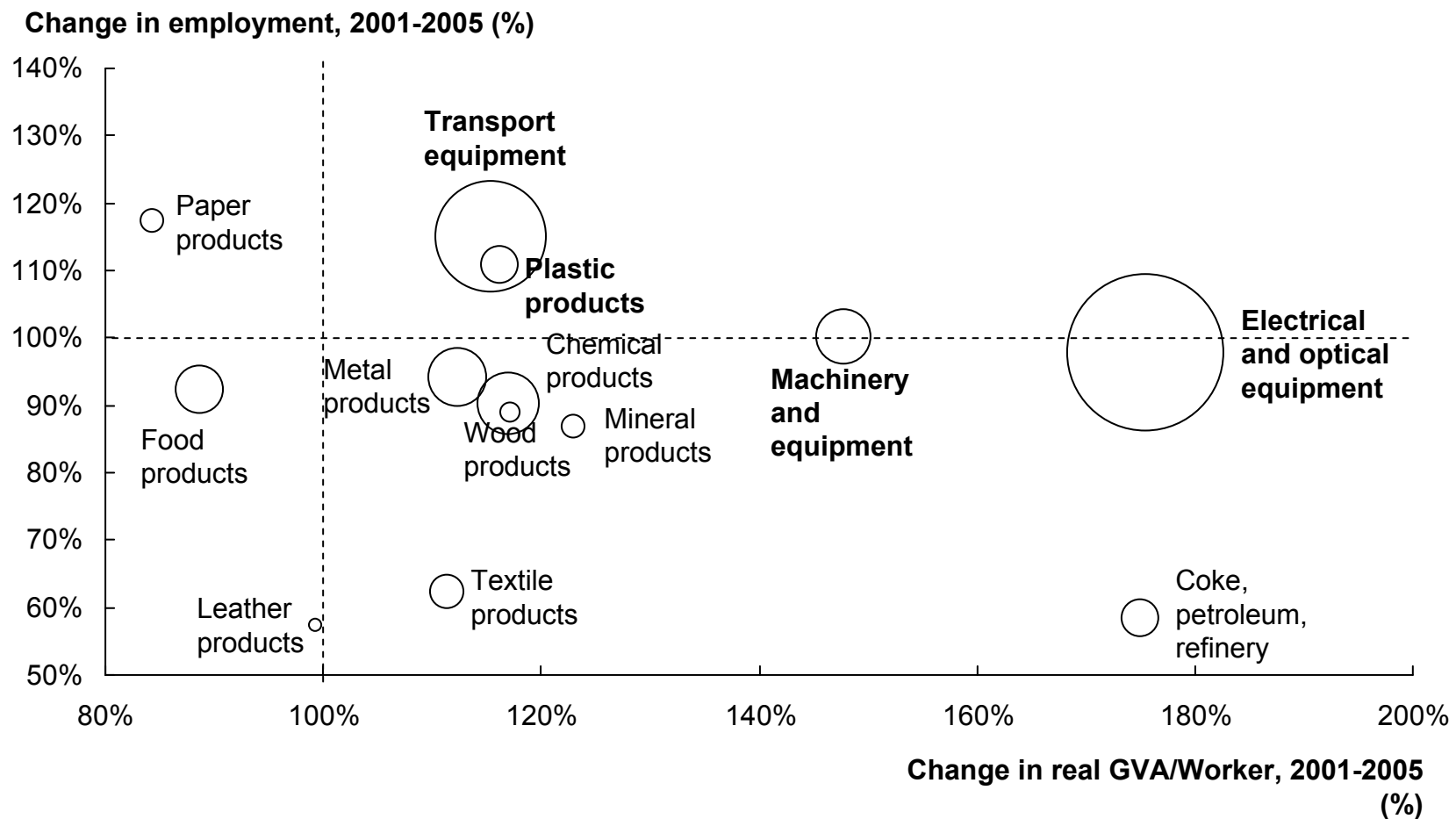
Change in employment, 2001-2005 (%)





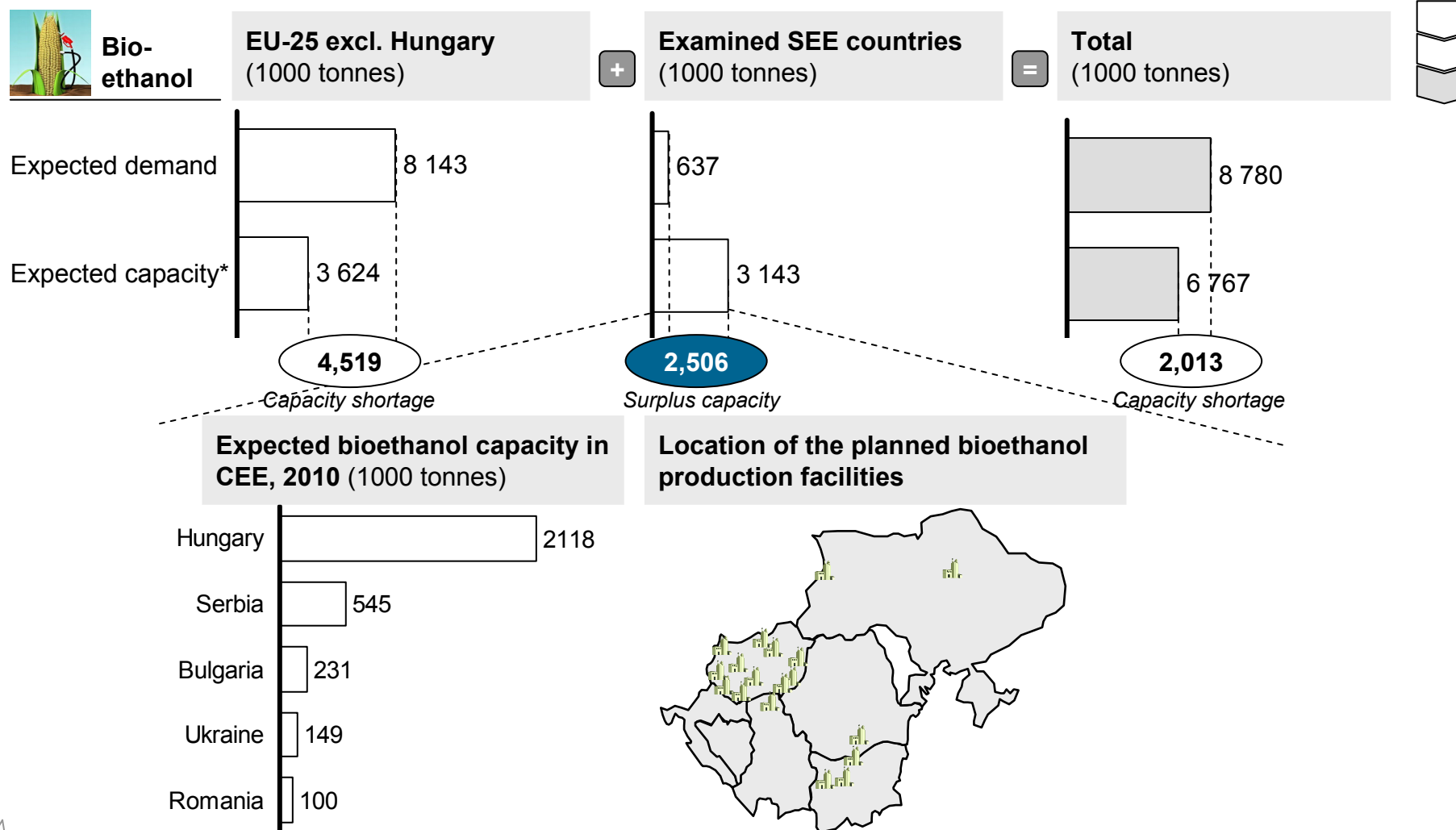
*Despite the unfavourable macroeconomic environment, there have been some tradable industries that were able to show expansion in the past few years*

**Expansion in branches of manufacturing**



*Hungary is ideally positioned to benefit from the expected bioethanol capacity shortages in the EU in the coming years*

### Specific opportunities in Hungary - Bioethanol



\* Expected capacity is derived from existing capacity and investments already announced in public sources; new announcements of investments are to be expected in the forthcoming years

*Due to current reforms and the EU transfers, in some sectors significant expansion is expected*

## Specific opportunities in Hungary – Other sectors



### Health sector

- Current reform of the health sector means more opportunities for private market players, especially in the area of health care providers and insurers



### Environment

- Due to EU regulations and transfers, huge investments are expected in the environmental management sector in the next few years



### Energy

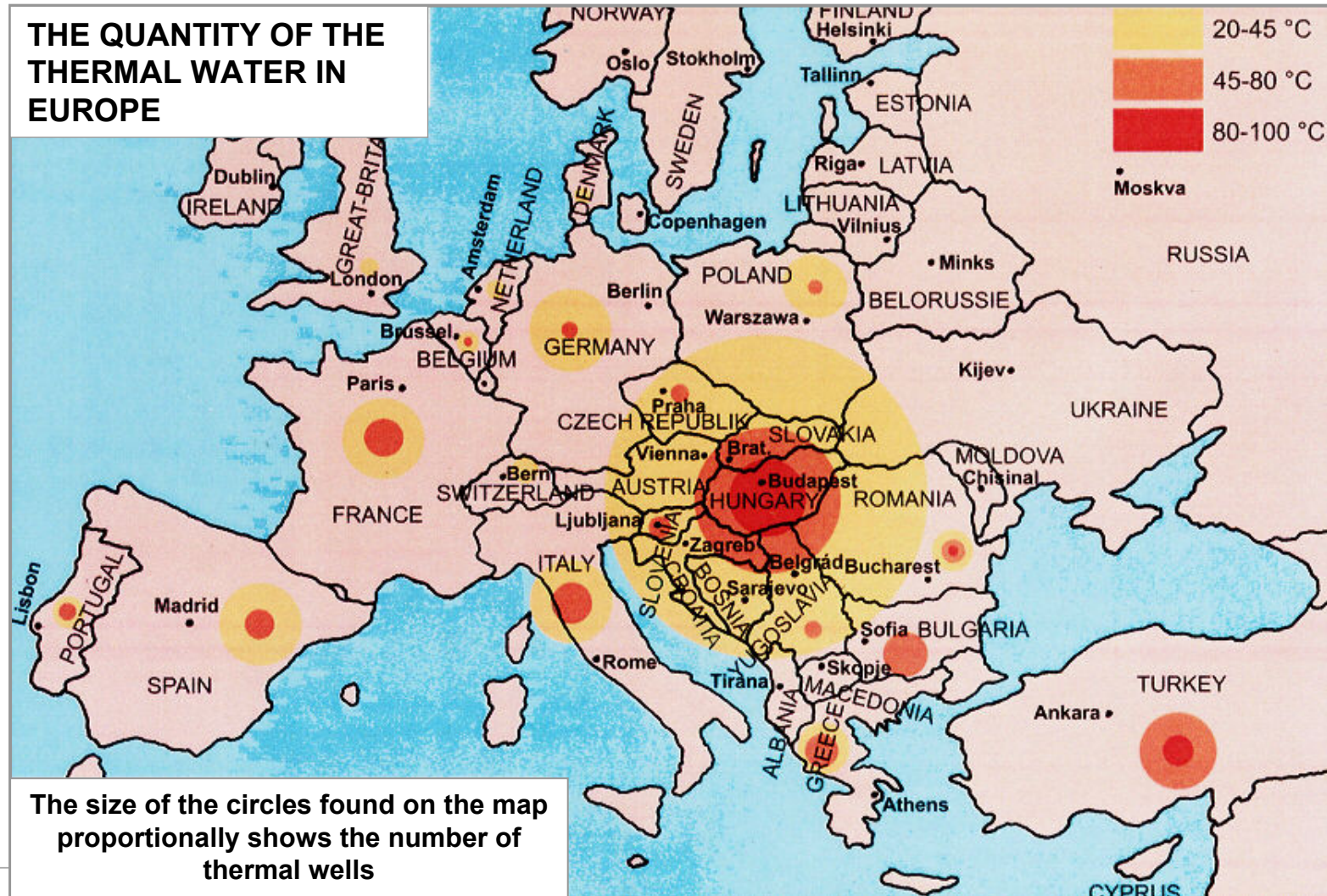
- Due to the liberalization of the energy markets and the spread of the green energy many opportunities can be foreseen in the next decade



Smaller markets such as the biotech industry, R&D in other sectors provide also good opportunities especially if they are carried out in a complex way!

*Hungary has a world-class thermal water asset, which can be used in many ways*

A unique possibility: thermal water





*Hungary has a World-class thermal water asset, which can be used in many ways*

### A unique possibility: thermal water



- Thermal water can be found under 70 per cent of the territory of the country
- At present 65 per cent of the registered 1434 fountains of the country provides thermal water above 50 C
- The thermal water „production” of the country is between 50-60 million m<sup>3</sup> annually at present
- Medical utilization of the thermal water together with high-level accomodation services is far below the opportunities
- Geothermal energy is hardly used in the country (0,3 per cent of the total), despite our geothermal indicators, which are far above the European average

*CEMI is a regional leader in assisting major companies' entry and expansion in Central and Eastern Europe*

## Previous assignments (examples)

### Market analysis

- Prepared a *complete overview* of the CEE region's *banking* industry for the CEOs of Europe's TOP 50 banks
- Developed and runs a standard *market monitoring system* for the leading regional telco operator for 14 countries
- Conducted several *market analyses* for M&A and private equity transactions

### Management consulting

- Developed *market entry* strategies for more than a dozen companies to Central and Eastern European markets
- Designed and implemented the *comprehensive reorganization* of the region's leading agricultural holding, and a leading transportation company
- Designed and implemented a highly effective *procurement cost compression* (PCC) project for the region's leading telecom operator

### M&A advisory

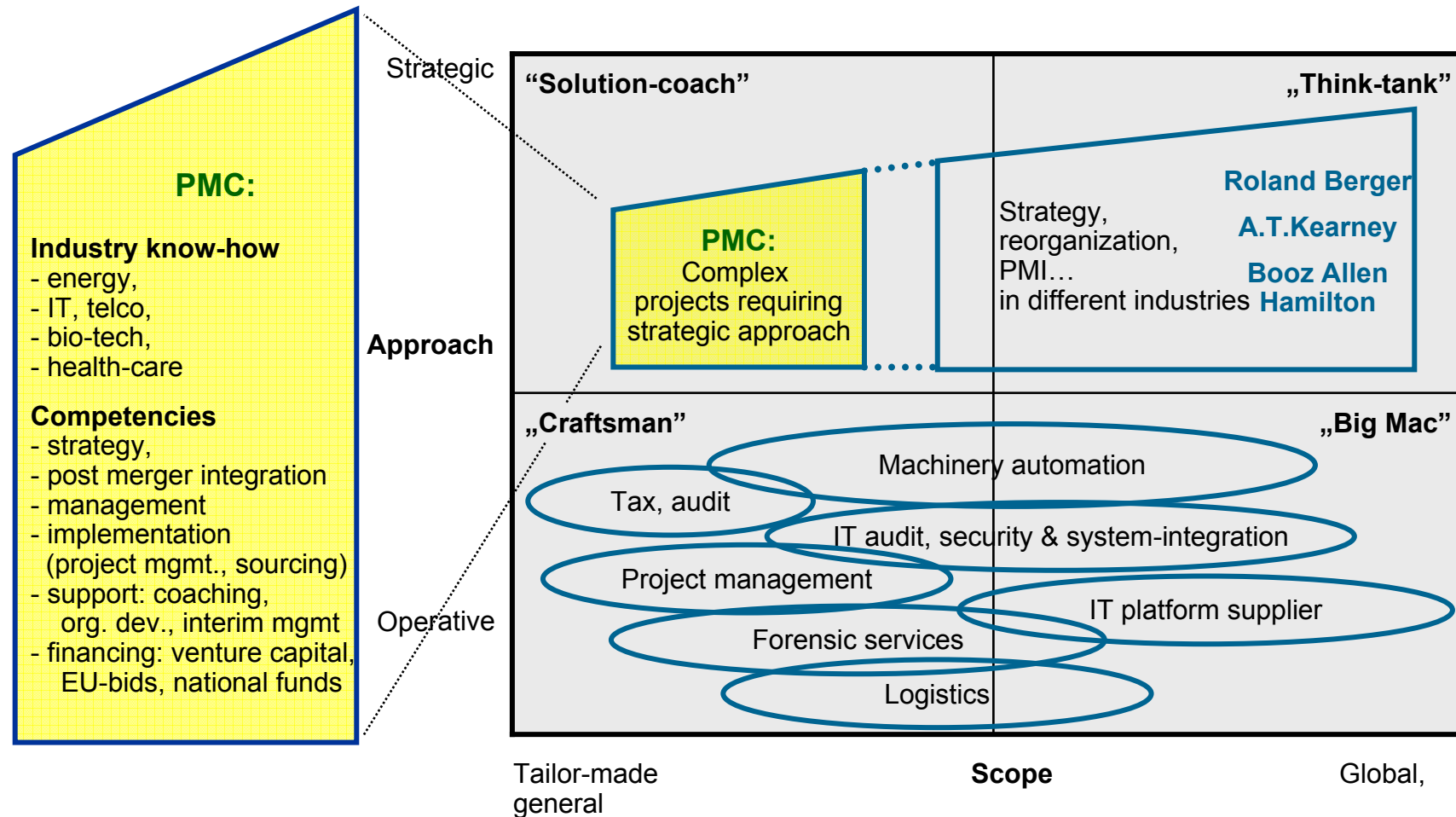
- *Complete sell-side services* (from info memo to deal closure) for a leading outsourcing company (sell-side)
- Overview of operations of a regional radio network, *assessment of potential strategic buyers* and creation of info memorandum (sell-side)
- *Target identification, due diligence, and negotiation support* for a niche leader in the construction sector (buy-side)

### Complex management services

- *Founding and building a regional service company* that serves retail banking clients in sales performance assessment
- *Planning for and implementing the regional expansion* of an international construction holding, tasks included recruiting the management team, securing the financing for greenfield investment, and continuous support in corporate governance
- *Turning around and attracting fresh capital* for a Hungarian software company (in progress)

*PMC is a solution-coach boutique with in-house international high-end level experience, direct link to think-tanks and a network of operative-level service providers....*

## Positioning PMC in the changing consulting landscape



...sometimes competing, sometimes cooperating with the international think-tanks

The business model of CEMI and PMC can be summarized in 4 key messages

