WHY INVEST IN HUNGARY?

• The country’s excellent geolocation provides a unique and remarkable opportunity for investment in agriculture and the food industry;

• There is huge potential for system integrator companies which have the capacity to supervise the whole supply chain and which have expertise in the agriculture sector;

• Hungary has a stable system of land tenure, which is based on tradition and provides a great opportunity for investors in the areas of precision farming and installing of new technologies.

• There are approximately 220 R&D centers working in various fields of agriculture employing approximately 2,000 researchers and scientists, however Hungarian agriculture is still based on traditional technologies and so knowledge and technology transfer is an excellent investment opportunity;

• Livestock breeding has experienced some emerging problems recently because of new regulations due to the avian flu. Meeting the requirements of these regulations is capital intensive, but also provides a potential area for investment;

• Hungary’s agricultural and food industry is strongly integrated into European markets, providing opportunities for non-EU based companies to reach a huge market of almost 500 million EU citizens. The Russian, Balkan and Eastern European markets are also within close reach;

• Research on comparative advantage shows that Hungary has advantages in food industry products export. Cereals, meat, sugar, and livestock exports are especially lucrative segments to invest in.
PROMISING GLOBAL AND EUROPEAN UNION TRENDS

According to current United Nations (UN) forecasts, the world population is expected to grow to 8.3 billion by 2030 and to 9.7 billion by 2050. To provide the optimum nourishment and healthy food for people, agriculture and the food industry faces enormous challenges. There is now more emphasis on the production of organic and GMO-free food in the EU as a result of trends promoting a healthy lifestyle.

A well-functioning global market and distribution network for agricultural products is emerging, in which there is a competitive advantage for countries with an established and organized agriculture sector. Increasing demand for food products will inevitably generate a greater value for each hectare of arable land.

Due to its excellent geographical location and well-established agribusiness, Hungary has every opportunity to become a winner in these global market conditions.
Some impressive figures on the Hungarian agro sector

Hungary is one of the sunniest countries in Europe with a climate that is absolutely perfect for agricultural production.

Average yearly sunshine, hours (2004-2016)

Source: HCSO

Sunshine duration in Europe (in hours per year)

Source: Wikimedia
Precipitation is stable and, combined with the excellent irrigation network, provides optimal conditions for high yield rates.

The chart below shows the changes in agricultural performance between 1996 and 2017. GDP growth in 2016 was 2.2 percentage points, and the contribution of the agricultural sector was 0.4 percentage points which represents 18% of GDP growth. The share of the agricultural sector in the Hungarian economy is 4.4%.
The chart below shows the production of major arable crops.

Source: Hungarian National Bank
The chart below shows the production of major arable crops.

Source: Hungarian National Bank

Source: HCSO

GEOLOCATION

Hungary is located in Central and Eastern Europe, and the country is a member of the OECD, NATO and the EU. Due to its strategic location with easy access to both EU and non-EU markets, foreign investors have long been investing in the Hungarian economy. The cumulative stock of FDI since 2000 is close to USD 80 billion.

The country’s agricultural and food industry is strongly integrated into the European markets, providing opportunities for non-EU based companies to reach a huge market of almost 500 million EU citizens. The Russian, Balkan and Eastern European markets are also within close reach. The two most important export countries are Germany and Romania, however Slovakia, Austria, the Netherlands, Italy and Poland are also significant importers of Hungarian agricultural and food industry products. Hungary maintains foreign trade relationships with more than 160 countries.
WATER RESOURCES

Land irrigation is available throughout the country as Hungary has huge water resources; the total length of all the irrigation systems and inland waterways in the country is about 26,000 km and groundwater can be exploited with minimal costs. However, this has still not been fully exploited, therefore the development of the irrigation system represents a business opportunity for investors. The rivers of Hungary are shown on the map below.

Hungary’s excellent geographical location has resulted in traditionally strong agriculture covering most of the country with broad patterns of agricultural areas.
INFRASTRUCTURE

Hungary has a well-structured transportation infrastructure, with one of the most developed motorway network systems in the EU. Rail is an important method of transport, carrying more than 20% of total freight, which is well above the EU average. Hungary also has an intensive logistics network consisting of 195 industrial parks countrywide. The map below shows the railway lines of Hungary.

Source: Euro Railways

A STRONG CULTURAL HERITAGE

The heritage of agriculture and the food industry is deeply rooted in the Hungarian population. At the end of 2015 there were approximately 473,000 registered companies operating in agriculture and the food industry.

BUSINESS OPPORTUNITIES AND TRADE

The food industry is not yet exploiting its full growth potential with regard to the production and the export of high quality semi-finished and finished products. Despite its excellent soil conditions, irrigation, and crop yields Hungary is not yet fully exploiting its natural resources and agricultural opportunities.

The total arable land in Hungary is 7.4 million hectares. Agricultural production accounts for 57% and forestry for 21% of land usage. As almost two thirds of the total available land space is used for farming, the opportunities in R&D activities and the adoption of global best practices represent a lucrative business opportunity for new entrants.
Hungarian agriculture does not have sufficient number of system integrators capable of supervising the entire supply chain. Investing in such an integrator role is great opportunity. There are some sectors of agriculture with great traditions in Hungary incl. breeding ducks and geese, however food processing industry operates at a low technological level, so these strengths couldn’t be fully utilized yet. This also provides an investment opportunity. Another field to invest in is precision farming since there is a need in Hungary for international technology and knowledge transfer to improve agricultural performance.

Satisfying domestic market needs alone would make agricultural investments in Hungary profitable, but there is even larger potential in increasing the export volume of high quality Hungarian products. Hungaricums – a term which refers to products that can only be made in Hungary – such as Tokaji, Pick or Zwack Unicum have already built up a name for the Hungarian food and beverage industry. We see further lucrative export potential esp. in cereals, meat, sugar, and live animal export.

Import volumes have grown to a yearly EUR 61 million in 2016, meanwhile exports have increased to EUR 296 million. This is an 3.7% increase in volume of imports and a 11.2% increase in exports. To make the sector even more lucrative, the Hungarian government provides large financial subsidies for investors.

The first chart below shows the export volume and value of wheat and corn; the second shows the export and import of swine livestock in 2016-2017.

Source: Agricultural Research Institute
Hungarian food production is expected to increase by 20% over the next four years due to restructuring programs and investment projects that have recently been initiated. Domestic demand is also expected to grow by 20%. This is further supported by the fact that EUR 13 billion worth of EU co-financed projects will be implemented by 2020 in the sector.

The construction of the largest slaughterhouse in Hungary, in Mohács, (there is only one comparable in the country owned by Hungary Meat Ltd.) was begun in 2015 and completed in 2016, and has an annual processing capacity of one million pigs. An integration network has been established to cover the whole value chain of meat producing and processing in Hungary.

**M&A ACTIVITIES**

The agriculture and food industry has long been a target for foreign investors. Global companies such as Danone, Coca-Cola, Nestlé, Heineken and Unilever, to name but a few, have all invested in order to establish a foothold in the Hungarian market. These multinational companies have not only fueled the financial growth of their local supply chains, but also contributed to the development of the company culture and infrastructure of the suppliers. Existing supplier networks are capable of providing high quality products and services to any potential investors.

**BANKING AND FINANCE**

Banking plays a crucial role in the health of the economy by providing the necessary finances to stimulate growth. As the returns on agricultural investments are becoming more and more attractive, lending activities have also significantly increased. One of the major Hungarian banks is already investing about 10% of its portfolio in the sector, and there is growing interest from other major financial institutions as well.
FOREIGN LAND PURCHASES IN HUNGARY

The purchase of agricultural land by foreign citizens and other legal entities is regulated by Act 122 of 2013 on the transfer of agricultural and forestry lands.

As a general rule, land can be purchased by any natural person (from Hungary), legal person, or any association not having a legal personality. Domestic natural persons and EU citizens who can be regarded as “non-farmers” can only purchase one hectare of agricultural land. Legal entities considered as “farmers” can purchase agricultural land of up to 300 hectares. The maximum land that can be rented is 1,200 hectares. In the case of livestock enterprises the maximum size of the area cannot be more than 1,800 hectares.

AGRICULTURAL SUBSIDIES IN HUNGARY

The Common Agricultural Policy (CAP) is the agricultural policy of the European Union. It implements a system of agricultural subsidies and other programs. During the 2014-2020 financial period 38% of the overall EU budget is dedicated to this program, from which Hungary will receive EUR 13.061 billion. The table below represents the structure of the Hungarian agricultural subsidies system.
COMMON AGRICULTURAL POLICY

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<tr>
<th>Pillar 1</th>
<th>Pillar 2</th>
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<tr>
<td>(EUR 8.916 billion, 100% EU)</td>
<td>(EUR 4.145 billion, 83% EU, 17% HU)</td>
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<tr>
<td>1/A Direct payments</td>
<td>1/B Market actions</td>
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<tr>
<td>National Rural Development Program (RDP)</td>
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The so-called “Single Area Payment System (SAPS)” under “Direct payments (1/A)” plays one of the major roles in the Hungarian agricultural subsidies system: it is HUF 70,000 / hectare (approx. EUR 225 /hectare).

AGRICULTURE AND SCIENCE

Since Prince Albert Casimir of Saxony, Duke of Teschen, established the Agricultural Higher Educational Private Institution of Magyaróvár in 1818 (now the University of West Hungary) almost 40 agricultural science institutions have been established in Hungary. Diverse agriculture fields such as environmental protection, bioenergetics, and rural development are attracting young researchers and aspiring professionals. Approximately 220 R&D centers are operating in the various fields of agriculture, employing more than 2,000 researchers and scientists.

SUCCESS STORIES

- WBonduelle is a French-owned company which is one of the major food processors in Hungary. The company has been present in Hungary for more than 20 years with a headquarters in Nagykőrös. It employs 1,000 people and has three factories – in Nagykőrös, Békéscsaba and Nyírszőlős. The company specializes in the manufacturing and distribution of canned and frozen vegetables.

- Companies such as Pannonia Etanol, Agrana, and Hungrana have been investing hundreds of millions of euros in Hungarian agriculture and their success is rooted in the high quality of Hungarian primary agricultural commodities.

- The term Hungaricum refers to a unique set of top quality goods – mainly from the food and beverage industry – which are under community protection law and in many cases are world famous.

- Traditional Hungarian products, which have not yet been fully exploited, such as Pálinka, Pick Salami, Tokaji wine, Unicum, Túró Rudi and agricultural products such as the Makó onion and paprika have huge potential to expand into global markets.

- Their unique history, craftsmanship and superior quality are elevating Hungaricums to the category of world-class products.

- A new wave of emerging trendy local restaurants and hotels use these agricultural and food industry products to satisfy their clients’ needs.