

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 12/9/2016

GAIN Report Number: HU16007

Hungary

Exporter Guide

2016

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Report Highlights:

This report summarizes general economic and business conditions in Hungary as they pertain to U.S. exporters of food and agricultural products. Included are an overview of products sales prospects, market trends, and Hungary's relative position in the broader EU market.

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I. MARKET OVERVIEW

Political Overview

Located in Central Europe, Hungary has been a member of the European Union (EU) since 2004. The role of the country in the European political economy is bigger than it would be thought based on its market size. Besides EU membership, the [Visegrad Group](#) (Poland, Czech Republic, Slovakia, and Hungary) and the actively maintained East-European relations (involving the Russian Federation) make Hungary important.

Parliamentary elections in April 2010 brought a center-right party coalition (Fidesz and KDNP) back to power with a two-thirds majority in the National Assembly of Hungary. Four years later, the FIDESZ-KDNP coalition was able to keep its majority in the Parliament by getting the 66.83 percent of mandates. In October 2016, 32 percent of the total population supported the ruling party, while none of the opposition party's support exceeded 10-12 percent respectively, according to TÁRKI Social Research Institute.

Macroeconomic situation

The International Monetary Fund (IMF) is projecting that Hungary's economy will expand by 2 percent this year, after forecasting 2.3 percent growth in April. The Government of Hungary (GOH) sees 2.5 percent growth in gross domestic product (GDP) this year. For 2017, the IMF maintained its 2.5 percent growth forecast in its world economic outlook report. The GOH is more optimistic. The Ministry of National Economy is expecting 4.1% GDP growth next year, rather than the 3.1% projected in the 2017 budget approved in the summer.

Hungary's economic growth will rise from 2.1 percent this year to 2.6 percent in 2017 and reach 2.8 percent in 2018, according to the semi-annual projection by the European Commission (EC). The slowdown in economic growth from 3.1 percent in 2015 was due to a decline in EU-funded investments, according to EC conclusions. Partly as a consequence, capital expenditures overall were down 16.5 percent in the first half, but are expected to rise in the second half and in 2017. Economic growth next year will be driven by the rise in consumption. Household consumption is forecast to continue growing, although at a slower pace, driven by improved consumer confidence, an upturn in bank lending to households and continuing positive labor market trends. As a result, private consumption remains the main contributor to economic growth.

Household spending is forecast to rise by 4 percent in 2017 and 3.6 percent in 2018. Gross wages are forecast to grow by more than 5 percent to 2018 as wage pressures are expected to become more prominent with labour shortages in industry, the report adds.

Table 1. European Union's autumn forecast for Hungary's economy (%)

	2016	2017	2018
GDP growth	2.1	2.6	2.8
Consumption	4.9	4.0	3.6
Investments	-8.2	5.9	3.0
Inflation	0.4	2.3	2.7
Unemployment	5.1	4.7	4.1
Budget deficit*	1.5	2.3	2.3
State debt*	73.4	72.5	71.8
* as % of GDP			

Exports are expected to grow by 6.7 percent this year before slowing to 5.1 percent in 2017. They are likely to pick up to 6.4 percent the following year, the EC report said. According to preliminary figures of the Central Statistics Office (CSO), a decline in imports significantly widened the trade surplus, as well as a decline in investments. Lower imports were also attributed to the cheaper energy prices. The EC projects inflation at 0.4 percent this year and at 2.3 percent in 2017. In 2018, consumer prices are forecast to rise by 2.7 percent.

The budget deficit is projected to ease to 1.5 percent this year, before rising to 2.3 percent in 2017. Assuming policy remains neutral; the deficit is forecast to flat-line at 2.3 percent of GDP in 2018. According to the Ministry for National Economy, Hungary's budget deficit could be below the 1.7 percent forecast this year, as the budget recorded a record high surplus for the first ten months. Budget spending was lower in 2016 and debt service costs fell as well. At the same time, the massive budget surplus for October is clearly a consequence of the resumption of EU fund transfers after a delay. Based on the expected economic trends, the international credit-rating agency Moody's Investors Service upgraded Hungary's long term issuer and senior unsecured government bond ratings by one notch to Baa3 from Ba1 in November 2016, putting the country back in investment grade. Explaining the rationale for the ratings action, Moody's said Hungary's debt burden will continue to gradually decline and structural improvements will support positive growth rates, while the country's external vulnerability has been significantly reduced. According to the report, "Moody's expects the greater predictability in policy making seen in the last couple of years will be sustained, resulting in a more stable, growth-friendly policy environment in Hungary than in the past." International credit rating agency Fitch also confirmed its BBB-rating for Hungary on November 18, 2016, however, this is the lowest investment grade. The main reasons for the rating confirmation are EU membership, good macroeconomic indicators and the high per capita GDP, Fitch added. Rating agency Standard and Poor's also bumped Hungary back into investment grade in September.

Agriculture in the economy

Hungary's weather and soil make it a great place to farm. Arable land and permanent crops account for 4.33 million hectares (ha), of which about 130,000 ha are irrigated. Pastures account for 0.76 million ha and forests for 1.94 million ha. Major crops include wheat (1 million ha), corn (1.1 million ha) and oilseeds, sunflower and rapeseed (0.87 million ha). The country has long traditions in producing planting seeds, and in horticulture. Animal production includes 3.1 million pigs and poultry flocks of 40.3 million. The number of cattle of all types is about 821 thousand.

Hungary's agriculture contributed 3.0 percent to the GDP and 3.6 percent to the gross value added in 2015. Food industry contribution to the domestic production stagnated at around 2 percent. The declining output of the sector reduced the GDP growth rate by 0.4 percentage points and the gross value added of agriculture fell by 13 percent. The number of investments was also lower. Agriculture accounted for only 4.2 percent of total investments in the economy and for 4.8 percent of the national employment rate.

In the past two years, manufacturing and services were the key engines of the GDP growth. The gross output of agriculture has not changed significantly at current basic prices in recent years. The share of plant products was 58 percent, that of live animals and animal products was 35 percent and agricultural services and secondary activities amounted to 7 percent of the gross output.

The country's agricultural trade balance is positive. The export volume of agricultural and food products expanded by 5.9 percent and imports by 0.4 percent in 2015. The share of agricultural exports was 8.7 percent in total exports of Hungary. The share of agricultural imports has stagnated at 6 percent for years.

The foreign trade structure of agricultural and food products is relatively stable in Hungary. Most of the exported commodities were grains, grain products, meat and meat products, vegetables and fruits, animal feed, and vegetable oils. The main import sectors belonged to similar commodity groups: meat products, vegetables and fruits, animal feed, dairy products and eggs, grain and grain products. About 81 percent of agricultural imports came from 10 EU member states last year. Hungary's most important trading partners are Germany, Poland, Slovakia, the Netherlands, Austria, Romania and Italy. Non-EU trading partners include Ukraine, Serbia, Turkey, Switzerland, Bosnia and Herzegovina, China and the United States in the plant product dominated markets.

Agricultural policy overview

The GOH declared that agriculture would be one of the key sectors for economic development in the next 20 years. In addition, the food industry was announced as a strategic sector. The market presence of competitive food entrepreneurs is vital to complete the governmental objectives. Therefore, the EU co-financed budget of EUR 0.96 billion to support the national food industry until 2020.

In order to ensure the quality of raw materials and stable markets for the Hungarian food processors, the GOH strongly supports increasing livestock production. It was stressed that the growth in production would be able to increase employment and strengthen the family farm based agricultural middle class as well. In order to achieve these goals, the support system has a fund of EUR12.3 billion for the Hungarian agriculture in the EU's multi-annual budget from 2014-2020. In Hungary's annual budget for 2017, the national and EU co-financed support fund for agriculture and rural development will rise to EUR 2.5 billion from EUR2.1 billion.

The GOH aims to increase the number of full-time employees in the farming sector from 550,000 to 750,000 by the year 2050. Presenting a long-term strategy for the sector, officials said that Hungary's farm exports should reach an annual EUR20 billion in the future as opposed to EUR8 billion last year. To that end, the GOH declared that more and better premium products should be produced and that Hungary "must exploit the benefits of its geographical position."

The Ministry of Agriculture has launched a public debate on a draft long-term strategy for the food industry which projects plans out to 2050. Estimates indicate that Hungary's food production potential is 160 percent of its present level. As a result, the strategy aims to increase the weight of agriculture and the food industry in Hungary's value-added production to 25 percent by 2050 and to employ 200,000 more people. The Ministry would like to see Hungary exporting value-added food to neighboring countries while processing their raw products. At the same time, the GOH re-confirmed its complete rejection of the use and production of genetically engineered (GE) products.

Hungary's GE-free status is often regarded as a possible marketing advantage because EU member states are primary destinations for planting seed and grain exports. In accordance with the government policy, Hungary developed its own system on labeling GE-free food and feed since there are no uniform rules and regulations within the EU. The country also promotes initiatives for GE-free crop, livestock and food production and feeding, and advocates for a joint alliance of EU member states for GE-free agriculture in Europe. In parallel, maintaining its GE-free status is one of the main sticking points in negotiations on free trade agreements. Hungary's imports and use of GE soybean meal in large quantities (500-600 thousand MT/year) is sometimes controversial and has led to political moves to reduce dependence on imports for the animal feed sector. Despite these efforts, it is notable that only 15-20 percent of protein feed is derived from domestic sources and the country's non-GE soybean production would be able to satisfy only 50 percent of annual demand by 2020, according to the most optimistic scenarios. The other 90 percent is imported mainly from Brazil and Argentina as trans-shipped product from other EU countries, especially from Slovenia, Germany, the Netherlands and Italy.

This makes farmers and feed producers vulnerable to the external market movements. According to estimates, about 90 percent of the imported soybean meal is GE, and its replacement with conventional, non-GE products would result in an extra cost of \$29 million annually.

In the past years, Hungarian agriculture and food industry had to face several difficulties. In particular, the Russian embargo affected the east European market opportunities. The sanctions, introduced in August 2014, caused nearly USD450 million export loss for Hungary's agriculture and food industry. The abolition of the EU's milk quota system, the Russian embargo and drop in Chinese demand had a negative impact on the dairy sector as well. Although top-up payments, extra EU financial aid and other government measures temporarily stabilized milk production and breeding of dairy cows, they did not bring real solution. Subsequently, the GOH secured EUR36.4 million in funding for the dairy sector, of which EUR11.6 million was provided for farmers in the form of "de minimis" aid and EUR24.8 million was available as transitional national support in addition to the EU's special aid funding. Moreover, the GOH wants to introduce new credit facilities into the market in order to support farmers in both dairy and swine sectors. In these credit options, all of the administrative and bank costs would be taken over and paid by the GOH. In order to increase the competitiveness of the sector, VAT on milk will be reduced from 27 percent to 5 percent as of January 2017, stimulating domestic consumption. In addition, VAT on large-bodied animals (e.g. cattle, sheep and goats) was also reduced from 27 percent to 5 percent at the beginning of 2014 and VAT on beef and pork carcasses was decreased as of January 1, 2015. A significant VAT cut on pork to 5 percent is in place since January 1, 2016 and a VAT reduction will be introduced on poultry meat as of January 2017 to help intensify production.

As shown above, the bovine sector is one of the top beneficiaries of support funds. According to the original support schemes (without extra aid), the EU co-financed budget to support dairy cow production is EUR66.9 million until 2020. In March 2016, it was announced that the cabinet had set aside EUR222.9 million from the EU co-financed support funds for animal farmers who could submit their bids from May. Cattle, hog and poultry breeding sectors each received EUR63.7 million to modernize livestock production. About 60 percent of the funding was reserved for young farmers in the countryside and applications by micro-companies and organic food farmers also got preference. In 2015, the GOH made more funds available to the horticultural sector from coupled supports in addition to the single area payments. This year, support of young farmers has got more attention and membership in recognized producer groups could be a basic requirement for subsidies in the future. This is the way how the GOH tries to strengthen the domestic integration of the horticultural sector.

Table 2. Advantages and Challenges for U.S. Suppliers in the Hungarian Market

Advantages	Challenges
<ul style="list-style-type: none"> - International credit-rating agencies bumped Hungary back into investment grade. - More stable, growth-friendly policy environment is expected. 	<ul style="list-style-type: none"> - Declining imports significantly widened the trade surplus in the sector.
<ul style="list-style-type: none"> - There is room to increase domestic food consumption. 	<ul style="list-style-type: none"> - Domestic food processing is competitive. - Domestically produced food products account for 70 percent of total consumption. - Consumer confidence is growing in Hungarian products.
<ul style="list-style-type: none"> - Household consumption is forecast to continue growing, driven by improved consumer confidence, an upturn in bank lending and continuing positive labor market trends. 	<ul style="list-style-type: none"> - Politically highlighted and supported domestic food sector. - More domestic products are declared and supported as “Hungaricums”, the club of officially distinguished, uniquely Hungarian products.
<ul style="list-style-type: none"> - There is growth potential in food retail sector, especially in suburban and rural areas. - Household spending is forecast to rise by 4 percent in 2017 and 3.6 percent in 2018. - Gross wages are forecast to grow by more than 5 percent to 2018. 	<ul style="list-style-type: none"> - Settlements with highest spending power are concentrated around the capital which results in stronger competition.
<ul style="list-style-type: none"> - Retail sales are growing (In January-August 2016, food sales were up 2.7 percent) 	<ul style="list-style-type: none"> - Undeveloped distribution network and delivery problems.
<ul style="list-style-type: none"> - The number of experienced multinational retailers is relatively high in Hungary. 	<ul style="list-style-type: none"> - Multinational retail chains are purchasing to serve EU-wide markets. There are less direct contacts with the Hungarian importers. - According to the Prime Minister’s Office, agricultural producers are vulnerable to retailers and the processing industry itself is exposed to risks of the “multinational, foreign-owned retail trade”.
<ul style="list-style-type: none"> - Western consumption patterns are emerging. 	<ul style="list-style-type: none"> - Competition from European producers with geographic, tariff, regulatory and administrative advantages. - 81 percent of food and agricultural imports are from 10 EU Member States (2015).

<ul style="list-style-type: none"> - EU membership facilitates the entry of new and small volume imports of U.S. products through other countries' distributors. 	<ul style="list-style-type: none"> - High transport costs and image challenges for U.S. products (e.g. GE content).
<ul style="list-style-type: none"> - Importers are open to new products. 	<ul style="list-style-type: none"> - Hungarian consumers are unfamiliar with the value of U.S. products.
<ul style="list-style-type: none"> - Innovative products and packaging are appreciated. - Hungary supports a circular economy which produces no waste or pollution. 	<ul style="list-style-type: none"> - Relatively small delivery volumes.
<ul style="list-style-type: none"> - Domestic food industry needs certain ingredients. 	<ul style="list-style-type: none"> - Increasing consumer expectations and food safety requirements.
<ul style="list-style-type: none"> - Hungary has a structural shortage of protein for animal feed: <ul style="list-style-type: none"> o To meet demands, the country imports large quantities of soybean meal. o Only 15-20 percent of protein feed derives from domestic sources. o Hungary's non-GE soybean production would not be able to satisfy more than 50 percent of annual demand by 2020. 	<ul style="list-style-type: none"> - Imports and use of GE soybean meal in large quantities (90 percent of total imports) led to strong political intentions to reduce the import dependence of the sector. - Hungary's GE-free status is often regarded as a possible marketing advantage for domestic producers.
<ul style="list-style-type: none"> - Less competitive domestic market players: <ul style="list-style-type: none"> o Most of the Hungarian majority-owned enterprises are small and medium sized with weak risk-taking and financial ability. o Lower effectiveness and productivity at enterprises compared to international ones. o High level of indebtedness at domestic enterprises. o For developments, Hungarian enterprises have weak creditworthiness o Lack of innovation, technological and structural lagging in the food industry. o Demand-following, weak marketing activity and indistinctiveness at domestic enterprises. 	<ul style="list-style-type: none"> - The Russian import ban enhances competition both in the EU and the domestic markets. - The share of agricultural imports has stagnated for years at 6 percent of total imports.

- VAT on carcasses of large-bodied animals, on beef and pork was reduced from 27 percent to 5 percent in order to stimulate consumption.
- VAT on milk and poultry meat will be cut as of January 2017 as well.

- Intensified domestic production, increasing competition.

II. EXPORTER BUSINESS TIPS

Market access

There are many opportunities to supply Hungary with goods, but products must be in compliance with the EU and the national labeling and packaging requirements, food safety standards and administrative rules.

Import requirements

As a member of the European Union, Hungary has adopted the EU import rules and foods safety regulations. Agricultural products are subject to the standard EU import sanitary and phytosanitary rules, quotas, duties and other provisions. Hungary’s national food legislation is harmonized with EU food laws. For more information on food legislation and food safety regulations, please see the [EU’s Food Law General Principles](#) and the related documents.

Applications for agricultural import licenses must be submitted to the [Hungarian Trade Licensing Office](#).

Import licenses impose rights and obligations on applicants with respect to trade. [Commission Regulation \(EC\) No. 1291/2000](#) lays down “common detailed rules for the application of the system of import and export licenses and advance fixing certificates for agricultural products”. [Commission Regulation \(EC\) No. 1301/2006](#) contains the common rules for the administration of import tariff quotas for agricultural products managed by a system of import licenses.

Packaging

For distribution of food products exported to Hungary, special attention should be paid to the proper packaging and labeling requirements. Food labeling ensures access to all required information regarding content and composition of products in order to protect consumers’ health and inform their interests. Certain foods, such as baby foods, genetically engineered or allergen containing products, must meet additional rules. Food packaging materials also must meet special production criteria in order to protect foods from contamination.

[EC regulations on food labeling](#) and packaging must be applied directly in the EU member states.

Additionally, harmonized national laws regulate the process of packaging, labeling and the waste management (Decree No. 442 of 2012 of the Government on packaging and on waste management activities related to packaging waste; Joint Decree No. 19 of 2004 of the Ministry of Agriculture and Rural Development, Ministry of Health Social and Family Affairs and the Ministry of Economy and Transport on food labelling). For more information on labeling requirements, packaging and container regulations please consult the [narrative on food and agricultural regulations and standards](#).

Consumer preferences and confidence

A survey of public opinion and market research company Nielsen found that Hungarian consumers prefer shops that are close to their residential area. However, it was not true in the cases of 50m² or smaller shops, so-called Mom and Pop shops, the numbers of which continue to decline year to year as larger chain stores move into communities.

The survey showed that 54 percent of respondents consume organic food beside conventional ones. It noted that consumers report avoiding too much fat and carbohydrates, as well as looking for information on food allergens. About 68 percent of consumers are willing to pay more for food and drinks that do not contain “undesirable ingredients”. The most common aspects of their purchase decision are as follows:

1. Conscious avoidance of sugar.
2. Low carbohydrate content.
3. Low fat content.

There is a market opportunity for food retailers and processors to satisfy the increasing demand for healthy products; 71 percent of respondents said that they deliberately adjust their diet for health reasons. In parallel, their preference is often influenced by sensitivities to food ingredients. For example, cow's milk and lactose sensitivity indexes of Hungarians are 19 and 7 percent, according to the Nielsen. Although many customers are looking for added value and high quality products, a lot of buyers remain price conscious. This is a real challenge for producers and sellers and is shown by mainly the sales of discount stores and retailer chains (401-2500 m²) increased to above-average levels in 2015. Consumers can choose from more than 25 thousand products in major domestic hypermarkets and it is difficult to gain the attention and preference of buyers with such a broad assortment of food items. In addition, consumers typically spend only 25 seconds to make their choice among the competing products and 57 percent of them regard the acquisition of food as a compulsion or duty trying to spend as little time with it as possible. Therefore, the current trend in packaging is to ensure uniqueness, an easy to remember and clear design, as well as convenient solutions.

In 2016, Hungarian consumers' confidence index increased significantly from the second to the third quarter of the year. It reached the value that evoked the period before the global financial crisis. Higher index was measured by the Nielsen only in 2010. According to the GKI research institute, consumer confidence index improved by 2.3 points and the business confidence index by 3.8 points in November. Consumer confidence also increased in terms of own brands and private label products of retailer chains. Buyers spent 6 percent more on the private-label products of store chains in 2015. The highest sales share of private-label products occurred in discount stores, where it was 70 percent among food products. In the case of hypermarkets, this share was 14 percent only. In the case of individual food products, private-label products had a share of 52 percent in animal feed, 48 percent in deep-frozen products, 13 percent in alcoholic beverages and 16 percent in candies and sweets, the Nielsen reported. Regarding marketing tools, a representative survey of NRC market researcher – conducted among the 18-59 years old Hungarians in 2014– established that brand loyalty, price/value ratio and rationality can override the "looking for the cheapest" attitude in most cases. In shopping, women are “protagonists” and 43 percent of them tend to expand the scope and volume of purchased goods under the influence of actions and promotions. About 56 percent of the population prefers known brands to the cheapest ones, and only 26 percent make their decision based only on the price. Strength of the attitude for searching the cheapest items largely depends on the category of products. In the case of such goods as coffee, tea, margarine, butter and sodas, it is rarely or not observable. However, turnover of these products is not really significant compared to basic foodstuffs.

According to a market research study by GFK, per capita purchasing power in Hungary grew from 38.4 percent to 40.6 percent of the EU average over the past year. However, its distribution is unbalanced in

the country. The richest settlements with the biggest purchasing power are highly concentrated in central part of Hungary, around the capital and in North-Transdanubium, close to the Austrian border. The per capita purchasing power of residents in Budapest is 125.5 percent of the Hungarian average, while that of people living in Northeast Hungary is only 74.8 percent.

It is worth noting that online shopping is increasing in food retail sector as well. Online sales grew 18 percent in the first half of 2016 compared to the same period of last year; however, consumer electronics were the most desired goods. According to Nielsen's research, 41 percent of the Hungarian respondents had already bought foodstuffs online, but 50% of the respondents preferred the conventional stores and did not want to participate in online shopping.

III. MARKET SECTOR STRUCTURE AND TRENDS

Food Retail Sector

For January-September 2016, unadjusted retail sales rose by 5 percent and adjusted sales increased by 4.9 percent. Food sales rose by 2.8 percent, non-food sales increased by 7.5 percent during the mentioned period, according to the CSO. Retail sales growth are expected to continue thanks to rising wages, improving employment conditions and stable consumer confidence. Full-year retail sales could be lifted over 5 percent before slowing to 3.5 percent in 2017.

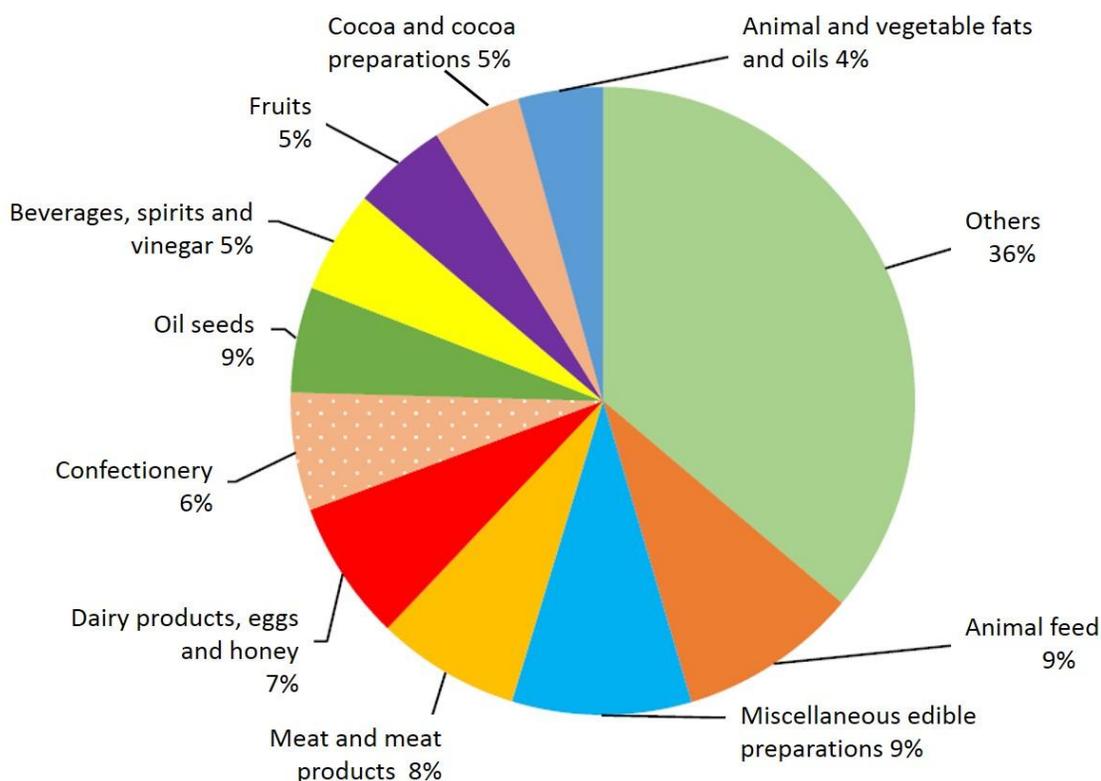
In the first 11 months of 2016 consumer prices were 0.3 percent higher than in the same period of 2015. Food prices rose 0.7 percent in November on an annual basis, including rises of 16.3 percent for sugar and 3.9 percent for vegetable oil, while pork and poultry prices fell by 8.2 percent and 2.8 percent.

In terms of import foodstuffs, the sales value of fruits, tobacco and edible food products increased the most, while the imports of sugar, confectionery products, meat and meat products fell most significantly in 2015.

Pork and poultry meat account for 75-80 percent of imported meat and meat products. Pork had a share of 61% and poultry meat had 15 % of the value of meat imports in 2015. Among processed meat and fish products, the imports of sausages and salamis increased by more than 15 percent.

Hungary is a net importer of the majority of fresh vegetables, such as potatoes, tomatoes, onions and cabbages. The imports of fruits also increased by 25 percent last year. Banana and citrus imports were up 26 and 6 percent. Regarding processed fruit and vegetable products, the value of imported juice increased 15 percent over the previous year.

Figure 1. Share of main products in Hungary’s total agricultural imports



Source: Research Institute of Agricultural Economics

At the beginning of 2016, the total number of operating units in food retail was 16,869 in Hungary, which was 5 percent less than the previous year. In particular, the number of traditional and small (51-200 m²) shops decreased. At the same time, Hungary’s food retail network is still fragmented. The relative number of groceries is 17 units per 10,000 inhabitants.

Traditional and small businesses are the largest part of Hungary’s food retail sector. Supermarkets and discount stores with a surface of 401-2500m² account only for 6.4 percent and hypermarkets for 1 percent of the total number of food retail units (Table 3).

Table 3. Share of food retailers in the total number of units

Food retailers	2014	2015	2016
>2500 m ²	0.9%	1.0%	1.0%
401-2500 m ²	5.6%	6.2%	6.4%
201-400 m ²	4.4%	4.7%	5.0%
51-200 m ²	34.4%	33.3%	32.5%
0-50 m ²	54.7%	54.8%	55.2%

Source: Nielsen

The expansion of food retail sales was helped by improved consumer confidence, increasing purchasing power and positive labor market trends. Many of hypermarket chains, especially the top 11 retailers, managed to increase their revenues by the end of the fiscal year. While a labor shortage and a ban on Sunday shopping were negative influences for retail chains, the overall impact was offset by a favourable economic environment and rising household spending.

The ban on Sunday shopping entered into force on March 15, 2015 (laid down by the Act CII of 2014 on prohibition of work on Sundays in retail sector). Since the act aroused a lot of controversy and resentment among consumers and distributors alike, the Hungarian Parliament voted to lift the ban in April 2016. So after 13 months, the restricted Sunday shopping act was repealed.

The ban on Sunday shopping resulted in retailers registering growth in online shopping. In Hungary, most of the hypermarket chains are working on launching their own online retail units. Hungarian-owned G-Roby was the first food retail chain in the country to enter the online market, followed by Tesco and CBA in 2013. Hypermarket chain Auchan also planned to launch online sales in the middle of October 2016.

The Hotel, Restaurant and Institutional (HRI) Food Service

Tourism is one of the largest sectors of the economy. Its share is 9.4% of the GDP and 12.1% of national employment, considering direct and indirect impacts. Direct contribution of tourism (including catering) is 5.8% to the GDP and 9.2% to the employment.

Tourism is growing in Hungary and expected to expand by a further 5-6 percent in 2016. Gross revenues of commercial accommodation were up 5.6 percent year-on-year in August and revenues increased by 6.9 percent over the first eight months as well, according to CSO reports.

The number of domestic guest nights was 6 percent higher than nights spent by foreign visitors. The total number of tourism-related hotel nights was 19.63 million from January through August 2016. There was growth in the number of arrivals from Germany, Austria and the UK, as well as Poland, the Czech Republic, Romania and Slovakia. The increase from China was 37 percent and there were 20 percent more guests from Korea and India, according the Association of Hungarian Hotels and Restaurants.

According to the Association of Hungarian Hotels and Restaurants, the proportion of "budget" leisure travelers among foreign visitors increased by more than 10 percentage points between 2008 and 2015. In 2008, business travelers made up 15.9 percent of Hungary's foreign visitors while 84.1 percent of them were leisure travelers. By 2015, the number of business travelers decreased by 28.2 percent, making up just 5.6 percent of foreign visitors that year. The number of leisure travelers grew by 80.2 percent during the mentioned period and structural changes also affected hotel demand. Overall, guest nights spent by foreign visitors grew by 45 percent between 2010 and 2015, but guest nights in cheaper guest houses and hostels increased by 725 percent. Base on the findings of the study, cheap flights offered by low-fare airlines played a major role in attracting budget travelers to Hungary.

Independently of the decreasing number of business travelers, Budapest is still a popular city for conferences. Last year, Hungary hosted a total of 820 international and 1,999 domestic conferences. Travelers arriving in the country for the purpose of participating in conferences, business trips or trade fairs spent a total of 5 million days in Hungary. The total number of tourism nights at commercial accommodation was 25.9 million in 2015. According to the International Congress and Convention Association, Budapest reached the position as the number 19 destination for association congresses outranking many important conference venues all over the world in 2015. In the ranking of European cities, Budapest was on 15th place last year.

The international importance of the capital is also highlighted by the fact that Budapest has a share of 66.3 percent of international guests, and a share of 59.7 percent of international guest nights. 13.7 percent of commercial accommodations are located in Budapest. The capital receives 36.6 percent of the arrivals and 33.9 percent of the guest nights at commercial accommodation. Regarding domestic tourism, this means a share of 9.8 percent of arrivals, and a share of 7.9 percent of guest nights. Average room occupancy rates in Budapest were 66.1 percent at commercial accommodation and 69.1 percent in hotels in 2015.

Lake Balaton is also popular among international visitors. The lake and its surroundings have a share of 7.5 percent of international guests, and a share of 13.5 percent of international guest nights. 32.8 percent of commercial accommodation bed places are located in Lake Balaton tourist region. 15.1 percent of all guests spend 19.6 percent of guest nights at the lake. Regarding domestic tourism, this means a share of 22.0 percent of arrivals, and a share of 25.8 percent of guest nights.

At the end of 2015, nearly 47,000 commercial and 5,500 institutional food services operated in Hungary. Within the commercial units, about 29,000 restaurants and confectioneries and more than 18,000 beverage stores, pubs and clubs hosted the guests. According to the CSO, the number of catering unit was about 53,000 which was 1.3 percent less than a year earlier. In 2015, 10.6 percent more revenue was realized in the catering sector, of which 87 percent was at commercial and 13.3 percent at institutional food services. Commercial units had a share of 90% and institutional units were only 10% of the total number of food services. Nearly one third of them are in Central Hungary, close to or in the capital. Sales of food accounted for 73%, alcoholic beverages for 11.5%, non-alcoholic beverages for 11%, coffee for 3.9% and other products for 0.6% of the total turnover of catering in 2015.

A shortage of labor is affecting the tourism sector all across Hungary and in all seasons. To help the sector through tax cuts, the Hungarian Parliament approved lower VAT on some goods and services in the tax bill for 2017. As of January 1, 2017, the current 27 percent VAT rate on catering supplied in restaurants and bars will be reduced to 18 percent, with a further reduction to 5 percent from January 1, 2018. According to the Ministry of National Economy, the decision cited the impact of Hungary's strong tourism sector. "Much of the fiscal revenue from tourism flows in through catering services. We believe that the lower tax will generate larger turnover," the Ministry said.

As Euromonitor's report established, foodservice operators, event marketing professionals and regional tourism offices teamed up in Hungary to create more open-air events, making various consumer foodservice types and cuisines popular among locals and tourists to boost sales and generate further trial. Product innovations, new concepts and new outlet openings tended to be in line with the trend for premiumization in consumer foodservice, and reflected growing consumer sophistication. Full-service restaurants, burger fast food, and food trucks led this trend. However, consumers are still price sensitive and tend to look at menu prices first; many of them are prepared to pay extra for a new culinary experience or to try some special delicacy.

Running a consumer foodservice outlet is still challenging and has a significant financial risk, especially outside of the main cities and regions in Hungary. Independent consumer foodservice operators dominate the market. Their key competitive advantages are location and knowledge of local tastes and traditions. However, some extras are also required to grow the business: more creativity in their food offerings, interior design reflecting the brand image and some human touch to make consumers feel they have got something special.

Gastro tourism, demand for fine dining, and innovative creative food drive sales, particularly in Budapest, but also with a few fine dining initiatives also emerging in the countryside. According to

Euromonitor, the opening of new innovative burger fast food restaurants was a feature of the review period. Some brands which started as food trucks or kiosks have emerged as trendy fast food brands, making good quality burgers to reinvigorate the image of the category.

Based on these experiences, broad range of consumers are open to classical and new tastes of the American street food culture. Burger and barbecue festivals are getting more popular in Hungary. More restaurants offer American prime beef or quality wine from California and are seeking something special for domestic buyers, helped by stories and positive feelings for America. Fine dining business is also growing in Budapest providing the increasing number of quality food consumers with gourmet specialties and elegant places for relaxing. It is not about quantity, but rather about the special quality of products which can be trend-setting. These restaurants could also determine the future of Hungarian gastronomy, having influence on food fashion in Budapest's downtown life.

Regarding public catering services, there is some uncertainty in the sector. Prices are expected to drop as a result of the planned nationalization of such services. Talks have already started about transferring control over all public catering services from local councils to the state. According to the Prime Minister's Office, prices could drop as a result of the move. The main concern of the private companies currently involved in offering such services is to generate profits. The affected catering services are used by schools, summer camps operated by the state and local councils, hospitals and other institutions offering social services and child protection services. Among public institutions, the highest number of consumers is in primary schools (47.5 percent), and kindergartens and nurseries (36 percent).

The Food Processing Sector

Food industry is one of the largest industrial sub-sectors in the national economy. It contributes to the GDP by 1.9 percent.

Hungary is self-sufficient in basic foods. The country's production potential is 120 percent of current needs and can be increased to 150 percent. Approximately 96 percent of food processing sector are micro, small or medium-sized enterprises. However, more than 70 percent of the total production value comes from large companies that are integral parts of the European food industry. Most of these processing plants belong to foreign companies having developed networks and trade partnership in the EU and advanced technologies. At the same time, domestic small and medium-sized enterprises struggle with the lack of working capital and suffer from low production efficacy.

The predominant share of foreign capital has significant influence on Hungary's food industry. It is above 90 percent in potato processing, the production of vegetable oils, ice creams, candies and livestock feed, as well as beer brewing. Almost all of the revenue from these kinds of production is realized by large companies; they have more than a half of net income in the sector. Small businesses are dominant in wine and fresh bakery production, as well as in meat processing and preservation. Medium-sized enterprises' share of the processed and preserved meat market and livestock feed production is also significant. The contribution of medium-sized businesses is nearly one-third of the sectorial output.

The close relationship between agriculture and food processing is indisputable in Hungary. 70-80 percent of agricultural raw materials are processed by the food industry in the country. Western companies invested in seed, sugar, soft drink, confectionary, snack, tobacco and pet food production, as well as vegetable oil processing and distilling. These companies are integrated into the EU's domestic market and have been through a concentration process in their ownership structure.

The share of imports in processed food supply is low in Hungary. Imports are relatively significant for sweets, confectionery, dairy products, fruits and vegetables. For many sub-sectors, imports of consumer-

oriented products are not high but raw material imports can be considerable. The food processing industry purchases most of its raw materials from domestic sources but imports of out-season or unavailable agricultural ingredients, non-food additives and packaging materials as well as technologies can provide with export opportunities.

IV. BEST PRODUCT PROSPECTS FOR U.S. AGRICULTURAL AND FOOD EXPORTS

Product category	2015 Market size	2015 Imports	5 year avg. annual import growth	Key constraints over market development	Market attractiveness for USA
Wine (million liters)	217.7	40.3	19.23%	<ul style="list-style-type: none"> • Competition from cheaper suppliers from Italy, Chile, Argentina, Australia and New Zealand. • Strong national lobbying for the consumption of domestically produced wines. 	<ul style="list-style-type: none"> • Wine consumption is traditional in Hungary and the number of quality wine consumers is relatively high. • Significant decrease in imports in 2015 mostly affected cheap bulk wines without geographical indications. • At top-tier hotels and fine dining restaurants more brands of American wine are available and make the assortment more colorful for quality wine consumers. • U.S. wine exports to Hungary are increasing.
Distilled beverages (in million liters of pure alcohol)	35	5.53	4.54%	<ul style="list-style-type: none"> • High VAT and excise tax are on spirits. 	<ul style="list-style-type: none"> • US bourbon whiskey is popular among Hungarian consumers.
Tree nuts (metric tons)	14,000	7,433	1.12%	<ul style="list-style-type: none"> • Special attention has to be paid to food allergies, packaging and labeling requirements, food safety standards and measures, and possible toxin contents (e.g. aflatoxins, ochratoxin). • Small market segment. 	<ul style="list-style-type: none"> • Tree nuts are popular for health conscious consumers because of their vitamin E and essential fatty acid content. • They are sought for special but popular diets, such as Paleolithic (paleo) diet. • There are increasing demand for almond especially from bakeries and confectioneries

Fish & Seafood (metric tons)	42,000	23,219	5.9%	<ul style="list-style-type: none"> Per capita consumption is still low, 5.2 kg annually. Direct channels for fish and seafood exports from the United States to Hungary are negligible. 	<ul style="list-style-type: none"> The GOH and the Hungarian Chamber of Agriculture support the increase of fish consumption based on public health reasons.
Beef (metric tons)	27,000	11,750	-7.3%	<ul style="list-style-type: none"> Growing fears from lower food safety standards (from hormone-treated beef) induced by negotiations on free trade agreements. Small delivery volumes. 	<ul style="list-style-type: none"> Hungary's beef imports increased over the past two years since the country's live cattle exports rose sharply (by 71% in 2015). The market availability of high quality beef is limited. Good market opportunities can be identified for U.S. high quality beef at full service restaurants.
Bovine semen (dose)	850,000	453,027	10.5%	<ul style="list-style-type: none"> Competition from European producers with geographic, regulatory and administrative advantages. Increasing use of natural mating. Stagnating number of dairy cows is because of market difficulties. The abolition of milk quota system, the Russian embargo and drop in Chinese demand had a negative impact on the sector. 	<ul style="list-style-type: none"> Hungary's cattle herd has been increasing for recent years. Bovine and dairy sector is one of the highlighted beneficiaries of support funds. The country's live cattle exports rose sharply. The significant export hike caused a relative shortage in live cattle in Hungary. Growing domestic production strives to satisfy demands for live cattle in the market. The United States is the most important supplier of bovine semen accounting for 37% of Hungary's total bovine semen imports. The United States has significant export surplus in bovine semen with Hungary.

V. KEY CONTACTS AND FURTHER INFORMATION

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APPENDIX-STATISTICS

A. KEY TRADE & DEMOGRAPHIC INFORMATION

	YEAR	VALUE
Agricultural Imports From All Countries (USD Mil)/U.S. Market Share (%)	2015	4,990.3 / 1.11%
Consumer Food Imports From All Countries (USD Mil)/U.S. Market Share (%)	2015	3,105.7 / 0.6%
Edible Fishery Imports From All Countries (USD Mil)/U.S. Market Share (%)	2015	88.6 / 0.07%
Total Population (Millions)/Annual Growth Rate (%)	01/2016	9.83 / -0.25%
Urban Population (Millions)/Annual Growth Rate (%)	01/2016	6.9 /-0.23%
Number of Major Metropolitan Areas	2016	1
Size of the Middle Class (Millions)/Growth Rate (%)	N/A	N/A
Per Capita Gross Domestic Product (USD)	2015	12,358.2
Unemployment Rate (%)	10/2016	6.4%
Per Capita Food Expenditures/month incl. beverages/tobacco (\$)	2015	65.2
Percent of 15-64 Years Old Female Population Employed	04/2016	58.8%
Exchange Rate (USD 1 = HUF)	11/2015	289.75

B. CONSUMER FOOD & EDIBLE FISHERY PRODUCTS IMPORTS

Hungary Imports (USD 1000)	Imports from the World			Imports from the USA			U.S · Sha re (%)
	2013	2014	2015	201 3	201 4	201 5	201 5
BULK AGRICULTURAL	658,130	629,659	492,229	21,461	16,921	29,669	6.03
Peas, Dried Shelled, Inc Seed	5,363	5,485	5,197	2,613	3,492	2,638	50.76
Kidney Beans and White Pea Beans, Dried Shelled, Inc Seed	12,032	14,708	17,328	4,589	7,171	11,302	65.22
Sunflower Seeds, Whether or Not Broken	147,317	135,502	120,781	9,464	2,922	13,808	11.43
CONSUMER-ORIENTED	3,190,785	3,441,899	3,105,666	19,017	18,799	18,649	0.60
Eggs of Chickens, Fresh, Nesoi	3,446	5,046	4,402	190	455	658	14.95
Vegetables Nesoi and Mixtures, Dried, No Furth Prep	19,313	18,938	18,966	2,596	1,392	2,727	14.38
Almonds, Fresh or Dried, Shelled	5,876	6,978	8,152	1,581	1,933	2,752	33.76
Prunes, Dried	2,784	3,370	3,040	404	534	407	13.39
Cranberries, Prepared or Preserved, Nesoi	492	733	931	144	115	233	25.03
Juice of Single Fruit/Veg, Not Fortified etc. Nesoi	6,198	6,157	4,898	141	287	134	2.74
Coffee Extracts/ Essences/ Concentrates Prep	24,251	24,628	20,093	64	184	145	0.72
Sauces etc. Mixed Condiments and Seasonings Nesoi	39,216	40,290	35,220	90	155	103	0.29
Food Preparations Nesoi	247,387	294,217	276,819	11,311	11,207	9,677	3.50
Nonalcoholic Beverages, Nesoi	35,053	36,510	37,281	891	490	294	0.79
Whiskies	14,065	17,809	13,963	3,483	3,809	4,013	28.74
Dog and Cat Food, for Retail Sale	71,124	79,040	99,947	173	140	84	0.08
Dextrins and Other Modified Starches	10,230	10,901	9,551	291	295	289	3.03
FISH AND SEAFOOD PRODUCTS	77,520	89,077	88,616	111	260	70	0.08
Fish Livers and Roes, Fresh or Chilled	1,810	125	21,803	111	111	68	0.3

							1
Alaska Pollock Fillets, Frozen	2,515	2,319	2,643	0	149	0	0.0 0
AGRICULTURAL PRODUCT TOTAL	5,421, 107	5,675, 487	4,990, 306	45,9 13	42,3 50	55,4 09	1.1 1
AGRICULTURAL, FISH & FORESTRY TOTAL	6,037, 538	6,365, 765	5,628, 919	46,8 38	43,5 99	56,8 22	1.0 1

Source: Global Trade Atlas

Note: The U.S. share on total imports does not reflect the real numbers as re-exported shipments through EU member states (mainly Germany) are not included.

C. TOP 15 SUPPLIERS OF CONSUMER FOODS AND EDIBLE FISHERY PRODUCTS

Hungary's imports of consumer oriented agricultural products

	Supplier Countries	2013	2014	2015
1	Poland	784461	843407	721775
2	Germany	475864	458152	403882
3	Czech Republic	264426	291621	286196
4	Netherlands	288795	290481	257240
5	Italy	222647	286576	252826
6	Spain	165887	173284	190625
7	Denmark	172140	206547	176069
8	Austria	129625	148462	125668
9	France	94489	115550	119130
10	Lithuania	109724	116105	97367
11	Slovakia	71563	89094	77155
12	Romania	64697	65917	62765
13	China	46386	47709	34778
14	Belgium	34189	33841	27307
15	Slovenia	17730	20647	23526

Source: Global Trade Atlas

Hungary's imports of fish and seafood products

	Supplier Countries	2013	2014	2015
1	Poland	15131	13536	15335
2	Germany	14165	14782	13347
3	Czech Republic	7969	11121	11815
4	Netherlands	6503	10408	9148
5	Italy	5601	6999	6739
6	Spain	3832	4409	5101
7	Denmark	4545	4617	4479
8	Austria	2804	3573	2939
9	France	1773	2206	2652
10	Lithuania	1595	2034	2136
11	Slovakia	2256	2159	2036
12	Romania	932	1958	1754
13	China	635	864	1375
14	Belgium	972	1473	1291
15	Slovenia	787	923	1281

Source: Global Trade Atlas

D. FOOD AND AGRICULTURAL TRADE SHOWS IN HUNGARY (2017)

[25-28 JANUARY 2017 – AGROMASHEXPO](#)

The 34th AGROMashEXPO and the simultaneously hosted Hungarian Garden as well as Viticulture and Viniculture Exhibitions will be high-profile events of agricultural trade shows featured market-leading brands and smaller businesses and companies.

[MAY 4-6, 2017 – "HUNGARIAN GREAT PLAIN ANIMAL HUSBANDRY AND AGRICULTURAL DAYS" EXHIBITION AND FAIR](#)

The 24th "Hungarian Great Plain Animal Husbandry and Agricultural Days" Exhibition is one of the field events of international livestock breeding shows. The event presents an impressive roster of exhibitors representing livestock breeding (in eight categories: horses, cattle, hogs, sheep, goats, poultry, ornamental poultry, and rabbits), fishing and hunting, as well as a range of technological fields serving the needs of breeders and crop producers.

[AUGUST 17-20, 2017 – FARMER-EXPO INTERNATIONAL AGRICULTURAL AND FOOD EXHIBITION](#)

The 27th Farmer-Expo International Agricultural and Food Exhibition is one of the oldest and most prestigious agricultural exhibitions in Hungary. Its success relies partly on its locality because the event is held in one of the most developed agricultural regions of the country. The Expo will host animal and agricultural machinery shows, conferences and business meetings.

[2017. SEPTEMBER 20-24. – NATIONAL AGRICULTURE AND FOOD EXHIBITION \(OMÉK\)](#)

The National Agriculture and Food Exhibition have a long running tradition that goes back to more than 100 years. The 78th OMÉK will be open for visitors between September 20 and 24, 2017 in the Hungexpo Budapest Fair Centre. The main objective of Hungary's largest agricultural and food exhibition is to present the ways of modern, effective and environment friendly farming. This endeavor will be served by the different demonstrations, stage programs, quizzes, interactive attractions and stalls offering traditional food, drinks and folk items. The exhibition also has an importance from the aspect of agricultural diplomacy introducing the top priorities of agriculture and highlighting and emphasizing the formative power of farmers.