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Hungary

Exporter Guide

Exporter Guide 2015

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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.

Post:
Budapest

Executive Summary:
The Hungarian food distribution system has changed in the last decade as hypermarkets and large shopping centers have come to dominate the market and Hungarian consumers are getting more quality and health conscious. International food processing companies and food retailers increasingly purchase non-EU commodities through centralized import divisions or from European distributors who are able to supply several Member Countries.

Author Defined:
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 the 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. The Fidesz-dominated Parliament quickly launched an ambitious legislative agenda that re-wrote the Constitution and extended citizenship rights to ethnic Hungarians living beyond the country's borders. Four years later, in 2014, FIDESZ-KDNP coalition was able to keep its majority in the National Assembly by getting the 66.83% of mandates.
Hungary has an economic and defense partner with the U.S., apart from a few foreign policy questions. At the same time, "Hungary's interest is to close the open and unresolved political issues in the Hungarian-American relations because balanced relationship with the United States is needed in all areas for the successful Hungarian foreign policy and foreign economic strategy" said the Government of Hungary (GOH) in a recent statement.

Macroeconomic situation
Hungary's economic output grew by an annual 2.3% in the third quarter of 2015, slowing from 2.7% in the previous quarter. The Central Statistical Office (CSO) attributed the slower pace to the declining performance of agriculture. Services, on the other hand, contributed more to growth. Annual GDP growth has slowed for the fifth consecutive quarter after peaking at an unadjusted 4.1% and a seasonally and calendar adjusted 4.0% in the second quarter of 2014. The pace has been down since last year when Hungary's GDP grew by 3.6% according to unadjusted figures.
The government, commenting on the data, said the main reason for the deceleration in growth was weaker agricultural output due to the summer drought and the very strong base period. However, the slower growth was "no surprise" because Hungary's convergence plan had forecast a 2.5% growth rate in GDP, adding that the government was planning a number of policy measures to boost growth.
Hungary's foreign trade surplus grew by over 24% in the first eight months of 2015 compared to the same period of 2014. This is among the top six growth rates in the European Union. Nearly 80% of

Hungary's foreign trade is carried out with EU countries, including the key trade partner, Germany. Based on recent data, foreign trade surplus could be record high in 2015, which is also supported by permanently low oil prices. The European Commission (EC) puts the Hungarian export growth at 7.7% in 2016 and 8.0% in 2017. The surplus was mainly posted as a result of the arrival of a part of the hundreds of billions of forints (HUF) in EU funding earlier suspended, as well as the increased tax revenues.

According to the updated EC forecast for Hungary, GDP growth will be 2.9% in 2015, before slowing down to 2.2% in 2016 and 2.5% in 2017. The new OECD forecast increased the expected 2016 GDP growth figure for Hungary from 2.2% to 2.4%, and left the 2015 figure at 3%. OECD sees 3% GDP growth in 2017. Growth figures over the EC forecast horizon are heavily influenced by Hungary's absorption of EU funds, which helped propel investment growth to 11.2% in 2014 and which may lead to temporarily negative figures in 2016. From 2017, funds from the current programming period of EU funding will start to positively affect investment again.

Inflation was negative in the first quarter of 2015 but turned positive in the second quarter. The Monetary Council and the EC expected the Harmonized Index of Consumer Prices (HICP) inflation for the year to be around zero. Looking ahead, the inflation figure for 2016, close to 2%, would turn out to be lower than previously anticipated due to lower oil prices, subdued imported inflation, low food prices and regulated energy price cuts. As the output gap closes, inflationary pressures from the real economy will drive up inflation to 2.5% in 2017, reaching the central bank's target of 3% only at the end of the year. According to the OECD forecast, inflation is predicted to be 0.1% in 2015, 2.2% in 2016 and 2.7% in 2017. The slowdown in China and other emerging market economies could also have indirect negative effects on Hungary.

The 2015 general government deficit is projected to reach 2.3% of GDP, from 2.5% in the previous year. The 2016 deficit is projected to decrease slightly to 2%. Hungary's structural budget balance is expected to remain broadly stable. Hungary's debt-to-GDP ratio is projected at 75.8% this year. Thereafter, the pace of debt reduction is expected to accelerate and public debt is expected to decline to 72.6% of GDP by the end of the EC autumn forecast horizon, mirroring the increasing rate of nominal GDP growth.

Bases on the expected economic trends, the international credit-rating agency. Moody's Investors Service upgraded its outlook for Hungary's sovereign debt rating from stable to positive in November 2015. Moody's noted that the amount of state debt in foreign currency has shrunk from 50% of the total in 2011 to 34% and could fall below 30% next year. "...the resilience of the Hungarian economy has been materially strengthened through the completion of the foreign-currency loan conversion program earlier this year," Moody's said in a statement.

Despite the rapid improvements in recent years, the high level of government debt remains an important source of vulnerability for the Hungarian economy. Hungary is still facing considerable external debt rollover needs, thus maintaining the confidence of foreign investors is of utmost importance. Moreover, GDP has only reached the level of the pre-crisis period but lags behind regional peers (Macroeconomic Imbalances. Country Report – Hungary).

Agriculture in the economy

Hungary's weather and soil make it a great place to farm. Arable land and permanent crops account for 4.58 million hectares (ha), of which 210,000 ha are irrigated. Pastures account for 0.76 million ha and forests for 1.94 million ha. Major crops include wheat (1.1 million ha), corn (1.2 million ha) and oilseeds, sunflower and rapeseed (0.73 million ha). The country has long traditions in producing planting seeds, and in horticulture. Animal production includes 3.13 million pigs and poultry flocks of

45 million. The number of cattle of all types is about 820,000.
The total agricultural output increased by 3.6% in 2014. Crop production volume increased by 12%. The export performance was nearly the same as that of the previous year. In 2014, agriculture contributed to the GDP with 5%, and the food industry accounted for about 2% of the domestic production.
Compared to the record-breaking last year, agricultural output remained subdued in the first half of 2015 negatively affected by the extremely hot and dry weather in the vegetation period. The agricultural volume of gross value added decreased by 16.8%. Apart from this, trends indicate a structural strengthening in the domestic agriculture. For proper interpretation of data, it has to be noted that the base period was very strong. The agricultural performance has increased greatly for two consecutive years. Gross value added from the sector was 15.1% in 2013 and 12.5% in 2014, contributing with 0.6 and 0.5 percentage points to the economic growth.
Most livestock inventories increased in the first half of 2015. The number of cattle was higher by 3.8%, pig population by 2.1% and chicken stocks increased by 6.5 % compared to the same period of the previous year. Production of grains also reached the level of 2014 and exceeded the five-year average by 20%. The number of slaughtering was significantly higher by 11-20% from January to June 2015. In the same period, purchase of fluid milk also increased by 7% despite the adverse European market conditions. The agricultural exports were 1.6% more than a year ago. In the first nine months of 2015, farm gate prices fell by 4.7% year-on-year, including a 1.8% decline in crops and 9.2% in animal products.
Foreign trade structure of agricultural and food product seems relatively stable in Hungary. Most of the exported commodities were grains and grain products, meat and meat products, vegetables and fruits, animal feed, animal and vegetable oils, fats and waxes. The main import sectors belonged to similar commodity groups, basic food staffs: meat products, vegetables and fruits, animal feed, dairy products and eggs, grain and grain products.
In the international trade of foods and agricultural products, Germany, Romania, Czech Republic, Austria, Poland, United Kingdom, Italy and Slovakia were the most important partners of Hungary. Non-EU trading partners included China, the United States, Ukraine, and Serbia in the plant product dominated markets.

Agricultural policy overview

The GOH declared that agriculture would be one of the key sectors for the economic development in the next 20 years. In addition, food industry was announced as a strategic sector of the Hungarian economy. The market presence of competitive food entrepreneurs is vital to complete the governmental objectives. Therefore, an EU co-financed budget of EUR 0.96 billion is to support the national food industry till 2020.
In order to ensure the quality raw materials and hereby the stable markets for the Hungarian food processors, the government strongly supports the increase of livestock production. It was stressed that the growth in production would able to increase the employment and strengthen the family farm based agricultural middle class, as well. In order to achieve these goals, support system has a fund of EUR 12.3 billion for the Hungarian agriculture in the multi-annual budget from 2014-2020.
According to the GOH, declared GMO-free status of the country also has a significant role to maintain the demand for the Hungarian goods both in the domestic market and abroad.
In the past years, Hungarian agriculture and food industry had to face difficulties caused by several weather and market problems. In particular, Russian embargo affected the East-European market opportunities. The Russian import ban imposed on farm products brought 14.5% fall in the Hungarian

agricultural exports to Russia in the last quarter of 2014 and 52% decline in the first quarter of 2015. The embargo caused about EUR 80 million export losses to Hungary.

In order to increase the competitiveness of the sector, the government reduced the Value-Added- Tax (VAT) on live pigs and pork carcasses from 27% to 5% at the beginning of 2014. The provision had a stimulating impact on the economy and allegedly resulted in decreasing the black market economy and tax frauds.

Similarly, the VAT on large-bodied livestock (e.g. cattle, sheep and goats) and their carcasses has also been reduced from 27% to 5% since January, 2015 in order to support the agricultural and food sectors.

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

Advantages	Challenges
There is room to increase domestic food consumption.	Domestic food processing is competitive. Consumption of domestically produced foods increased from 70% to 75% in 2014. Consumer confidence is growing in traditional Hungarian foods.
Western consumption patterns are emerging.	Competition from European producers with geographic, tariff, regulatory and administrative advantages. (75 % of imports are from the EU Member States.)
There is growth potential in food retail sector, especially in suburban and rural areas.	Settlements with highest spending power are concentrated around the capital which results in stronger competition.
Domestic food and feed industry needs certain ingredients (e.g. soybean meal).	Image challenges for U.S. products (fears from hormone-treated beef, chlorinated chicken, GE products etc.).
EU membership facilitates the entry of new and small volume imports of U.S. products through other countries' distributors.	High transport costs.
The number of experienced multinational retailers is relatively high in Hungary.	Multinational retail chains are purchasing to serve EU-wide markets. That is why there are less direct contacts with the Hungarian importers.
Innovative products and packaging are appreciated.	Relatively small delivery volumes.
Importers are open to new products.	Hungarian consumers are unfamiliar with the value of many U.S. products.
Increasing spending power.	Decreasing prices. (Agricultural producer prices fell by 6.0% in 2014 and by 4.7 % in the first nine months of 2015.)
T-TIP could boost transatlantic trade.	The volume of imports fell by 2.4% in trade with non-EU countries in 2014 and was stagnating in 2015.
Lower effectiveness and productivity at Hungarian enterprises compared to international ones.	Politically highlighted and supported food sector.
Most of the Hungarian majority-owned enterprises are small and medium sized with weak risk-taking and financial ability.	Undeveloped distribution network and delivery problems.
High level of indebtedness at domestic enterprises.	Slow increase of real incomes.
For developments, domestic enterprises have weak creditworthiness and commercial banks prescribe strict conditions and have low willingness to lend.	Unpredictable changes in legal and economic environment.
The lack of reserves at domestic market players results in economic instability and bigger exposure to bankruptcy.	High rate of VAT and other deductions.
Lack of innovation, technological and structural lagging in sub-sectors.	Increasing consumer expectations and food safety requirements.

Demand-following, weak marketing activity and indistinctiveness at Hungarian enterprises.	The Russian import ban enhances competition both in the EU and the domestic markets.

II. EXPORTER BUSINESS TIPS

Market access

Most of the U.S. products are re-exported from European countries (mainly from Germany) to Hungary. There are many opportunities to supply Hungary with goods, but only 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 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 the EU's 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 have to be submitted to the Hungarian Trade Licensing Office.

Import license imposes rights and obligations on applicants in respect of trade. Commission Regulation (EC) No. 1291/2000 is laying down the 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

In distribution of food products exported to Hungary, special attention should be paid to the proper packaging and labeling requirements. Food labeling is to ensure access to all needed information on the content and composition of products in order to protect consumers' health and interests. Certain foods, such as baby foods, genetically engineered (GE) or allergen containing products are under additional and special rules. Food packaging materials also have to meet production criteria laid down in order to protect foods from any kind of contamination.

EC regulations on food labeling and packaging must be applied directly in the EU member states. Additionally, harmonized national laws also 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).

Consumer preferences and confidence

At the end of the second quarter of 2015, household consumption expenditure increased by 2.6% compared to the same period of the previous year. Among the components of households' actual consumption, food was one of those groups that represented the largest shares of expenditures. The share of catering and accommodation and housing services also increased. At the same time, consumption of alcoholic beverages and tobacco products decreased.

Consumer preference is largely a matter of confidence. According to an international market researcher

Nielsen, consumer confidence rose in the third quarter of 2015 to its strongest level in five years. Its index rose by 6 points to 61 from the previous quarter, hitting its highest level since the second quarter of 2010.

The company confidence index of the Hungarian Chamber of Commerce stood at 45 points in October 2015, up from 42 in the last survey in April. This is the second highest figure since the index was launched in 1998. Confidence stood at 61 points among foreign-owned companies and 38 among exclusively domestic enterprises. Exporting companies were more optimistic than those that rely only on the domestic market.

The rate of Hungarians saying they were likely to make purchases rose to 21 % from 17 % and those who saw their own financial position positively climbed to 24 % from 22 %. At the same time only 42% of Hungarians were able to put aside savings in the preceding years, according to an NGO survey.

Another survey of a market research institute, GFK, showed that the position of hypermarkets has weakened in recent years. However, almost 25% of fast moving consumer goods were still purchased in those stores. The share of small shops, close to residential sites, increased to 13% in 2014 and discount stores were also able to stabilize their market position with a share of 16.5%.

Regarding marketing tools, a representative survey – conducted among the 18-59 year old Hungarians – established that brand loyalty, price/value ratio and rationality can override the "looking for the cheapest" attitude in most cases. In shopping, women are the “protagonists” and 43% of them tend to expand the scope and volume of purchased goods under the influence of actions and promotions.

56% of the population prefers known brands to the cheapest ones, and only 26% 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 the basic foodstuffs.

According to a market research study by GFK, purchasing power per capita is only 37.7% of the EU average in Hungary. Moreover, its distribution is extremely 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. Regions with the lowest ability to purchase are situated in the north-east and the south-west part of the country.

It is worth noting that the number of online shoppers has been growing in recent years and it is more than one-fifth of the population of Hungary. Every fourth one of them is a new or casual player in the market, but the majority regularly does shopping over the Internet. The expansion of online stores also became determining in retail statistics.

III. MARKET SECTOR STRUCTURE AND TRENDS

Food Retail Sector

Health consciousness is getting more emphasized in the market of agricultural and food products. This is reflected in that the most dominant organizations and companies in the sector joined the initiative of the Association of Food Processors, making more than 70 voluntary commitments to promote healthy nutrition. The increasing consumer need for healthy diets and foods has to be taken into account for market entry strategies and to maintain and increase competitiveness. Salt, calorie and fat content reduction, promotion of active lifestyles with responsible advertising were also among their commitments.

In the first nine months of 2015, retail turnover was 5.9% higher than in the same period of 2014,

according to both the adjusted and non-adjusted figures, the CSO said.
Food retail turnover was nearly 5% more between December 2014 and September 2015. Revenues of food stores from soft drinks grew by 10% in 10 months, which was one of the main reasons for the market expansion. Energy and sport drink, as well as ice tea sales were prominent both in values and quantities. However, turnover of beer, carbonated soft drinks, mineral water and fruit juices was also above the average in Hungary, according to a global marketing research company Nielsen.
The market share of supermarkets and discount stores with a surface of 401-2500m^2 was 39% in the food retail sector and that of the stores with more than 2500m^2 was 27%. Food retail business contains about 18,000 commercial units in Hungary of which about 15,600 are traditional small businesses. Their share of food retail sales was 26% (18 % for shops with 51-200m^2, 8% for smaller units than 50m^2).
The expansion of food retail sector was helped by the 0.2% lower prices in the first ten months of 2015. Food price inflation was 1.7% and the inflation of alcohol and tobacco prices stood at 3.7%.
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 the retail sector) aroused a lot of controversy and resentment among the consumers and distributors alike. It is worth noting that online retailers have registered accelerated growth since the ban came into effect. In the first quarter, online retail sales were up 16% year-on-year. That is why most of the hypermarket chains are working on launching their own online retail units.
It also seemed controversial, mainly for the multinational tobacco companies, that the State Tobacco Wholesaler (ODBE) began its operations at the beginning of November 2015. OBDE became Hungary's sole distributor of tobacco products. All tobacco retailers have to purchase their goods from that wholesaler. Multinational tobacco companies Philip Morris, Japan Tobacco and Imperial have not signed an agreement with the state wholesale monopoly. Therefore, a joint venture of British American Tobacco and Hungarian firm Continental became the only authorized distributor of tobacco products in Hungary after November 17, 2015. The tobacco companies turned to the European Commission to challenge the law that created the monopoly wholesaler. As the new system requires them to provide detailed information on their pricing, sales and storage to ODBE, they would be providing such data to one of their main competitors, British American Tobacco.
Besides the above mentioned measures, the government proposed the introduction of a new tobacco tax on types of tobacco products that are especially harmful to health. The new tax is expected to be HUF 4 (EUR 0.01) per cigarette.
Companies in food retail sector have to face further governmental austerities in the future. For example, the draft bill ordering a minimum number of employees in retail chain stores based on their area will mostly affect food retailers. The draft states that there must be one shop assistant per 70m^2 at food retail outlets with at least 400m^2 of retail space. It adds that those hired will have to be qualified staff. The possibility of such a measure could be a source of pressure at talks on wages between the government and employers.
Regarding taxes on food retailers, it has to be noted that the government is apparently resisting the EU requirement that its tax on food retailers has to affect all retailers evenly, based on the letter of the GOH sent to the EU Competition Commissioner in September 2015. Although the related bill submitted to the Parliament reinstates a flat "food safety tax," the government is still lobbying to have two tiers, with the tax on high turnover retail chains to be three times higher than the tax on smaller retailers. The government's letter to the EU indicated that the food safety tax would be 0.1% on annual turnover of up to HUF 30 billion (EUR 95.2 million) and 0.3% on turnover above that figure. The costs of checking multinational retail chains are higher because they carry more imported goods and have distribution centers that must also be checked, the government explained.

In 2014, the share of food, beverage and tobacco group of goods with raw materials of agricultural origin was 9.0% of Hungary's export trade and 5.9% of imports. The export surplus of plant products decreased by 8.0% but the volume of imports was higher by 12%. Coffee, tea, cocoa, vegetable and fruit imports increased. The export surplus of live animals and animal products just fell short of the previous year. Exports of dairy products and eggs were increasing year by year. Therefore, the country has become a net exporter of them since 2012.

The structure of imports and exports is relatively stable. The majority of export products are grains (19%), meats and meat products (15%), vegetables and fruits (12%), animal feed, animal and vegetable oils, fats and waxes. The greatest amounts of imports are meats and meat products (12%), fruits and vegetables (12%), coffee, tea, cocoa, spices and animal feed. 94% of Hungary’s agricultural imports are from the EU member states. Germany is the largest trade partner in both directions: 14% of goods are exported to and about 21% comes from there.

The Hotel, Restaurant and Institutional (HRI) Food Service

In the second quarter of 2015, contribution of services to the gross value added grew by 2.4%, and by 5.0% in the trade, catering and accommodation service sectors. HRI services helped the GDP expansion of 2.7% by 1.3 percentage points. The annual inflation of services was 1.7%.

Although the number of guest nights spent by Chinese and Indian tourists in Hungary is on the rise, European guests remained the driving force of Hungary's tourism sector. Around 80% of Hungary's tourists come from European countries.

Budapest registered the second highest hotel occupancy rate in Europe in August. However, tourism in the countryside had not fared as well due to a drop in Russian and Ukrainian tourists. Hotels in the countryside generally record bigger turnover figures over long weekends. Most guests choose to stay in wellness centers.

In the January-September period, guest nights rose by 6.4% in 2015, split equally among domestic and foreign visitors. Guest nights spent by Hungarians were up 6.3% and nights spent by foreigners were up 6.5%. In January-September, the total revenue of commercial accommodations grew by 11.8% and occupancy rate at hotels averaged 55.3%, 3 percentage points higher than the same period a year earlier. The migrant crisis did not have a significant impact on the tourist industry. However, the number of tourists from Austria was down 11% in September. There was an increase in cancellations only at some hotels near the Austrian border. Guest nights spent in Hungary were up 6.7% year-on-year in September, shortly after the peak of the refugee crisis in Hungary. Hotel room revenues rose 17% year-on-year, while catering revenues were up 9.8%. Occupancy rates at hotels averaged 61%, up from 56.6% one year earlier.

Hungary is visited by more than 5 million tourist (defined as spending more than 3 nights) annually. The total number of tourism nights is about 24 million per year. Upper-tier hotels could be partners for U.S. food exporters to break into this segment.

At the end of 2014, nearly 48,000 commercial and 5,500 institutional food services were operating in Hungary. Within the commercial units, about 29,000 restaurants and confectioneries and more than 19,000 beverage stores, pubs and clubs hosted the guests. The number of restaurants was 2.8% less than in the previous year. According to the Central Statistical Office, the number of restaurants was 52,906 in June of 2015, in Hungary 86% of their revenue was realized at commercial and 14% at institutional food services.

The share of food consumption at home is about 86%. The remaining 14% can provide good potential for growth in catering and for restaurants. At the same time, VAT rate in Hungary is among the highest ones in Europe. It is 27% on food and 18% on accommodation services. This fact makes the long-term

sustainability and profitability more difficult in this sector.
It's worth noting that several international companies have franchise networks in Hungary, including McDonalds, Burger King, Pizza Hut, Kentucky Fried Chicken, Subway, and Starbucks Coffee. Some of them increased the number of their units mainly in franchise networks in order to eliminate or reduce difficulties and risks with own businesses. For a successful business model, the different consumer expectations and tastes, the relatively high rental fees and the lower profitability also have to be taken into account in Hungary.

The Food Processing Sector

Hungary is self-sufficient in basic foods. The production potential is 120% of the current needs and can be increased to about 150%. The vast majority of food processing sector (approximately 96%) is micro, small or medium-sized enterprise. However, more than 70% of the total value of production 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, the domestic small and medium-sized enterprises struggle with the lack of working capital and suffer from low production efficacy.

70% of foods produced in Hungary are sold in Hungary. Hungary is net a food exporter, although the volume of imports are growing and the proportion of processed foods in exports is declining. Hungary's largest export market is Germany.

Small businesses are dominant in wine and fresh bakery production, in meat processing and preservation. Medium-sized enterprises' share of the processed and preserved meat market and livestock feed production is also significant.

Almost all of the revenues from potato processing, vegetable oil, starch, sugar, pet food and beer production are realized by large companies. They have more than a half of net income and value added in the sector while 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. Even though the share of unprocessed products reaches 60% in the agricultural and food exports, 65% of agricultural raw materials are processed by the food industry in the country.

Western companies have invested in distilling, seed production, sugar production, soft drinks, vegetable oil processing, confectionary, pet food, snack and tobacco production. Companies of these sectors are integrated into the EU-28 domestic market and have been through a concentration process in their ownership structure.

The share of imports in the supply of processed food is relative low. Imports are relatively significant for sweets, confectionary, dairy products, fruits and vegetables. For many sub-sectors, consumer-oriented product imports are not high, but raw material imports may be considerable. Soybean import (protein sources used in animal feed milling), almonds and raisins import (sweets and confectionary), and tobacco all fall into this category. 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 and technologies can provide with export possibilities. However, mostly sporadic export sales opportunities for U.S. suppliers have occurred in recent years.

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

Product category	2014 Market	2014 Imports	5 year avg.	Key constraints over market development	Market attractiveness for USA

	size		annual import growth		
Tree nuts (metric tons)	14,000	5,392	8.68%	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)	California Almonds dominate the market. Tree nuts are getting more popular for health conscious consumers because of their vitamin E and essential fatty acid content.
Fish & Seafood (metric tons)	52,000	20,500	3.13%	Per capita consumption is still low, 5.2 kg annually.	The GOH and the national Chamber of Agricultural Economy support both the increase of fish consumption and fish market intensification based on public health reasons.
Wine (million liters)	216	40.3	19.23%	Competition from cheaper suppliers from Italy, Chile, Argentina, Australia and New Zealand. Strong national lobbying for the consumption of domestically produced wines.	Wine consumption is traditional in Hungary and the proportion of quality wine consumers is relatively high. Decrease in imports only affects cheap bulk wines without geographical indications.
Beef (metric tons)	22,000	11,251	0.3%	Growing fears from lower food safety standards (from hormone-treated beef) induced by the negotiations and national debate on TTIP	Good market opportunities can be identified for U.S. high quality beef produced without growth hormones.
Distilled beverages (million liters)	32	6.48	17.15%	High VAT and excise tax are on spirits.	US bourbon whiskey is increasingly popular among the Hungarian consumers.
Dried Fruits	26,000	8,450	2.3%	Competition from cheaper suppliers from	Dried fruit consumption is

(metric tons)				Turkey and Asia	growing. Good quality of California raisins and prunes are recognized by consumers.
Snack foods (excl. nuts) (metric tons)	26,000	8,713	4.22%	Public health product tax introduced two years ago has reduced the market of and demand for snack foods.	Hungarian snack food consumption (2.6 kg per capita annually) is less than the European average. There are opportunities for market development but the approved intake of salt and flavor enhancers has to be taken into account.

V. KEY CONTACTS AND FURTHER INFORMATION

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APPENDIX-STATISTICS

A. KEY TRADE & DEMOGRAPHIC INFORMATION

	YEAR	VALUE
Agricultural Imports From All Countries ($Mil)/U.S. Market Share (%)	2014	5,675.5 / 0.75%
Consumer Food Imports From All Countries ($Mil)/U.S. Market Share (%)	2014	3,441.9 / 0.54%
Edible Fishery Imports From All Countries ($Mil)/U.S. Market Share (%)	2014	89.01 / 0.3%
Total Population (Millions)/Annual Growth Rate (%)	2014	9.9 / -1.2%
Urban Population (Millions)/Annual Growth Rate (%)	2014	5.1 / -0.2%
Number of Major Metropolitan Areas	2014	1
Size of the Middle Class (Millions)/Growth Rate (%)	N/A	N/A
Per Capita Gross Domestic Product (U.S. Dollars)	2014	$10,500
Unemployment Rate (%)	09/2015	6.4%
Per Capita Food Expenditures (incl. beverages/tobacco)(U.S. Dollars)	2014	$710
Percent of Female Population Employed	07/2015	57.3%
Exchange Rate (US$1 = HUF)	11/2015	290

B. CONSUMER FOOD & EDIBLE FISHERY PRODUCTS IMPORTS

Hungary Imports (In Thousands of Dollars)	**Imports from the World**			**Imports from the US**			**U.S. Share (%)**
	2012	2013	2014	2012	2013	2014	2014
BULK AGRICULTURAL TOTAL	635,285	658,130	629,659	15,647	21,461	16,921	2.69
Other Oilseeds	82,353	163,507	153,863	4,485	9,465	2,922	1.90
Tobacco	64,560	51,732	35,268	1,143	1,741	935	2.65
Pulses	23,746	23,478	26,379	9,012	10,024	12,386	46.95
INTERMEDIATE AGRICULTURAL TOTAL	1,600,768	1,572,192	1,603,929	5,484	5,435	6,631	0.41
Vegetable Oils (Exc. Soybean Oil)	139,763	179,587	164,352	270	287	351	0.21
Feeds & Fodders (Exc. Pet Food)	103,348	106,990	112,068	455	543	621	0.55
Planting Seeds	70,495	108,973	133,563	101	413	598	0.45
Essential Oils	89,290	101,690	133,977	1,040	1,201	1,674	1.25
CONSUMER-ORIENTED	2,934,952	3,190,785	3,441,900	16,762	19,017	18,799	0.55

AGRICULTURAL TOTAL							
Dairy Products (Excl. Cheese)	248,263	288,325	299,735	0	0	259	0.09
Eggs & Products	37,066	39,735	43,540	1,595	358	531	1.22
Processed Fruit & Vegetables	202,361	226,907	245,811	1,389	3,219	2,442	0.99
Tree Nuts	29,111	30,622	39,552	1,489	1,581	1,934	4.89
FISH AND SEAFOOD PRODUCTS AGRICULTURAL TOTAL	69,205	77,520	89,078	131	111	260	0.29
Other Fishery Products	54,890	59,768	65,091	131	111	260	0.40
AGRICULTURAL PRODUCT TOTAL	5,171,005	5,421,107	5,675,488	37,892	45,913	42,350	0.75
AGRICULTURAL, FISH & FORESTRY TOTAL	5,714,820	6,037,538	6,365,766	38,829	46,838	43,599	0.68

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.