THE **INVESTOR´S GUIDE** TO HUNGARY

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AN INTRODUCTION

Central Eastern Europe (CEE) has fully cemented itself as a strategic location from which progressive organisations can expand. With highly skilled talent pools and far lower costs than countries further west, Hungary and its CEE neighbours are attracting more and more foreign businesses each year.

The pull for these companies has been the opportunity to save costs and increase output, setting up Business Process Outsourcing (BPO) and Shared Service Centres (SSC) in the region. Some CEE governments offer lucrative tax incentives for new investors, who are also able to benefit from multilingual talent pools as well as the lower costs for labour and real estate. The SSC market has managed to remain stable throughout times of adversity and shows no sign of slowing. On top of that, CEE is now making a name for itself for higher value-added functions. Cities like Budapest are emerging as thriving innovation ecosystems - tech and engineering hubs that offer foreign companies new frontiers for strategic advancement.

Countries like Hungary, Poland and Romania have long traditions of excellence in math, engineering, and science education. This has produced workforces rich in technical capabilities. Graduates from CEE universities often choose to stay local instead of emigrating; opportunities are plentiful, and wages have risen thanks to foreign investors coming in to capitalise on their skills, particularly in IT and Engineering. For organisations from the west, they get an optimal balance of cost efficiency and quality, while strong linguistic capabilities and cultural compatibilities facilitate processes. Businesses are realising that they can scale up their project capacity here without sacrificing quality, allowing them to expand on demand.

But when faced with a choice of potential bases within CEE for your company, why should you choose Hungary instead its neighbours? What sets Hungary apart from other CEE nations, and what would the process look like—logistically and financially—to get set up in Hungary?

Thanks to exclusive insights from Hays, Deloitte, Cushman & Wakefield, and HIPA (Hungary Investment Promotion Agency), The Investor's Guide to Hungary answers all these questions and more.

First, we identify the key factors any organisation should consider as part of its Location Strategy for choosing a new base - from the costs to the talent and the business environment itself.

Then, we take a helicopter view of Hungary's business environment a whole, touching on some key factors before exploring each on in detail in section 3. There, we look at Hungary's key differentiators, exploring talent pool, office market, subregions, tax incentives and more.

Finally, we move on to explore the processes for registering a company in Hungary before taking a closer look at taxes, grants and other financial factors.

We hope you find these insights useful on your path to making an informed decision about Hungary as a potential base for your business.

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SECTION 1: **LOCATION** STRATEGY: **KEY CONSIDERATIONS**

In today's globalised economy, developing an effective location strategy is crucial in determining a company's successful market entry. This strategic decision involves a comprehensive assessment of multiple factors, each of which carries its own weight in the location selection process. Below, we delve into the some of the key factors of location selection.

- **Talent**: At the heart of a location's appeal lies its talent pool. Businesses must evaluate not only the availability of a skilled workforce but also the associated costs and the overall quality of the available talent. This encompasses assessing the skills, educational background, and professional experience of the workforce within the city and its potential wider catchment area.
- **Business Environment**: Surrounding business dynamics profoundly impact a company's success. This extends beyond mere infrastructure to include the strength and competitiveness of the local business ecosystem. Examining the presence of suppliers, competitors, and potential partners is crucial. Moreover, understanding the political and economic stability, labour laws and characteristics of the region is vital, as is exploring local government incentives, tax structures, and grants designed to attract and support businesses.
- **Costs**: Companies must assess the cost implications of setting up and conducting operations in a specific area. These operating costs primarily incorporates labour and real estate costs, taxes in various forms (property, income, sales), and the expenses associated with regulatory compliance and obtaining necessary permits.
- **Quality of Life**: Beyond the workplace, a city's quality of life influences its attractiveness to both employees and their families. This includes access to quality educational institutions, healthcare facilities, range of cultural amenities, recreational opportunities and even climate conditions. A favourable quality of life can significantly impact employee retention and overall job satisfaction which is crucial to take into consideration when assessing a location.
- **Sustainability**: As environmental concerns rise in prominence; sustainability considerations are becoming increasingly critical. This involves analyzing the environmental impact and carbon emissions associated with a location. Additionally, evaluating the availability of renewable energy sources and the presence of green initiatives in the area aligns with a company's commitment to environmental responsibility.

Location strategy is a multifaceted process where all these key factors come together to form a comprehensive picture, and this is how we will form an assessment of Hungary in this report. In an ever-evolving business landscape, successful companies adapt to emerging trends, harness data and technology, and make well-informed decisions that drive their success in the global marketplace.

Next, we move on to take a helicopter view of Hungary's business environment, before examining it more deeply against the key factors cited above.

SECTION 2: **HUNGARY'S BUSINESS ENVIRONMENT**, A HELICOPTER VIEW

Economic Diversity & Resilience

The secret lies in the diversity of its economy. Recent key investments in the automotive, battery, food and service industries showcase the dynamics of the Hungarian economy. Besides Germany, Hungary is the only country in Europe to host production units of the 3 German premium car manufacturers (Audi, BMW, and Mercedes-Benz). The battery industry is also developing rapidly, with 300 GWh manufacturing capacity planned by 2030. The food industry is booming, with continuous reinvestments in corn, sunflower and meat processing ensuring an increasing share of processed food in the country's export. Moreover, Business Service Centres and the ICT sector are greatly contributing to creating high value-added and attractive jobs, encouraging young, highly qualified graduates who speak foreign languages to stay in the country, while working in an international environment. Due to this diverse economic structure, Hungary has the 9th highest economy complexity ranking in the world.

To preserve such an investor-friendly ecosystem, it is important to provide a stable political and economic environment with growth and social well-being. Hungary has an open economy and one of the most competitive tax systems in Europe. The economy's resilience was effectively demonstrated during the economic crisis triggered by the COVID-19 pandemic, as it exhibited a remarkable V-shaped recovery, showcasing a substantial 7.1% GDP growth in 2021, followed by a 4.6% growth in 2022.

Tax Benefits

Hungary has the lowest corporate income tax rate in the European Union with a 9% flat rate. Meanwhile, the Government has continuously reduced tax burden on labour in recent years. Employer related taxes in 2022 were reduced to 13% from more than double that rate in 2016 (28.5%). Also, because of Hungary's pro-family policy, parents with minor children benefit from tax reliefs, and young people under 25 and mothers under 30 are exempt from personal income tax.

Socioeconomics

Investors choose Hungary not only because of the investment-friendly ecosystem. The country offers excellent opportunities in both business and private life. The strategic policies and community engagements implemented led to a low crime rate and high safety rate which make Hungary a place worth living and investing in. The strong social cohesion, cultural identity, and the secure environment are all important factors why foreign workers are happy to be employed in Hungary, which is greatly facilitated by the supportive domestic labour market and immigration legislation, for both blue and white-collar workers.

Talent Pool

With an ample, well-educated talent pool and competitive labour costs, there is a great potential in Hungary's labour market. Hungary's education system has a special focus on STEM faculties, especially business and engineering, resulting in a highly-skilled, multilingual and market-ready workforce. Lately, around 300,000 students have been pursuing their studies in tertiary level education institutions, and approximately 70,000 fresh graduates enter the labour market annually. The Dual education system is also available in cooperation with global partners like Audi, Bosch, Mercedes-Benz, and many more. Investors seeking a suitable location for their global services find Hungary an ideal destination, with support for approximately 40 languages in the service industry. While English, German, French, Spanish, and Italian are commonly spoken at a professional level, the availability of exotic languages further enhances the country's appeal.

Trade Links and Infrastructure

Sitting at the heart of the European continent, Hungary provides a strategic location for trade and investment with 3 core European transportation corridors: the Mediterranean, East-Med and Rhine-Danube. One of the most important transport hubs for CEE, the port of Koper, is also located just over 300 km from Hungary. By the free movement of labour and goods within the EU, companies investing in Hungary gain access to a European market of 450 million people.

In addition to physical transportation, ensuring speed information flow is also a crucial issue when deciding on an investment. Hungary has a well-developed communication infrastructure which provides a solid foundation for digital connectivity, supporting the needs of all businesses. The country has the 11th fastest broadband internet speed in the world, which is widely available in

SECTION 2: **HUNGARY'S BUSINESS ENVIRONMENT**, A HELICOPTER VIEW

urban and suburban areas. Hungary also boasts the 5th highest download speed in the EU. There are continuous investments in expanding and upgrading the internet infrastructure to support growing digital demands.

Sustainability

As an advocate of sustainable development, Hungary is dedicated to reaching ambitious climate goals which put the country on a green pathway: 66% of the electricity production is already carbon free and Hungary's legal obligation aims to reach full climate neutrality by 2050. The goals by 2030 are that 90% of the Hungarian electricity production will be carbon neutral. Industrialisation, new investments, electrification, and transformation to carbon neutral energy sources drive the need for more energy. Therefore, nuclear and natural gas power plants are being constructed, alongside a significant growth in solar energy generation that signals a future shift to solar in the energy mix.

Governmental Incentives

The Hungarian Government is ready to provide competitive incentives for investments that contribute to the development of the Hungarian economy. The available subsidies aim to support regional investments or innovative research and development projects with cash grants and tax benefits, and to contribute to trainings for workers to perform high value-added work. These incentives are under the management of HIPA, which assists all investors with tailor-made incentive offers and guidance in related applications. HIPA also offers information packages, location searches and support in connecting with suppliers and meeting with local authorities, educational institutions, and consultants. HIPA is a gateway to the Government, mediating between businesses and political stakeholders or making policy proposals based on company feedbacks. In recognition of the successful investment promotion policy, the Site Selection Magazine chose Hungary as the best country to invest in the Eastern European region in 2023.

A supportive business climate, competitive taxation system, a range of incentives and a highly skilled workforce encourage businesses to take the first step and follow the example of a remarkable number of foreign investors who have placed their trust in Hungary's economy.

Now we move on to examine the aforementioned factors in more detail, starting with talent.

SECTION 3: **HUNGARY UNDER THE LENS**

SECTION 3.1: THE **TALENT MARKET**

Industry Trends in the Hungarian Tech Talent Market

The period from 2021 to now has been an era characterised by a recruitment boom for tech talent in Hungary. For 2024 and beyond, further moderate growth in the tech market is foreseeable in the related fields of IT development projects.

The most significant current trends revolve around AI and Cloud technologies. Although AI has been with us for many years in our everday life, 2023 was the year that AI focused developments were stretegically deployed and major breakthroughs were made in the technologies and its use cases. This has impacted the tech recruitment market in Hungary, as well as across the globe.

The spread of Cloud technology has been, and still is, a very important factor in the life of market players. These type of development projects will definitely continue to rise as the infrastructure itself means a clear competitive advantage in any given industry. Cloud, however is still considered an edgy new technology and the candidate pool is limited compared to other tech professionals. This is especially the case for DevOps Engineers, around 70% of whom are focused on development, and 30% on maintenance. However, given a DevOps Engineer´s capacity for both, these are professionals in very high demand by companies.

The current IT talent climate is driven by candidates expecting inflation adjusted salaries, as most tech employers will moderately only moderately increase salaries, below the predicted inflation levels in 2024. On top of acquiring new talent, companies are and will be focusing on retention and how to keep their best staff. Therefore, the most valuable candidates will have a good negotiation position and counteroffers will probably dominate the talent game even more than ever before.

Hungary, a Hotbed for Tech and Engineering Talent

Hungary has a comparatively rich supply of tech and engineering talent. Its universities have rich traditions of excellence in these areas and there's a strong mix of talent across disciplines.

The CEE region as a whole is said to be home to more than 1 million software developers , many of whom live in Hungary. Aside from developers, Hungary's talent pools are particularly strong for IT Project Managers and Infrastructure and Network Specialists , as well as engineers across the disciplines. For foreign organisations faced with intensifying skills shortages in IT and engineering in their local countries, Hungary's ample talent pool in these areas makes for an attractive proposition.

Here is a snapshot of the Hungarian tech skills landscape:

- **Roles with the highest demand:** Full Stack Engineers and DevOps Engineers
- **Roles with the highest salaries:** Software Engineers, especially Frontend, Python and Java Developers
- **Most Available Candidates:** QA Engineers, Network Engineers, System Administrators and IT Project Managers
- **Least Available Candidates:** DevOps Engineers, Data Engineers, Salesforce Developers, Python Developers, Node.JS Developers

Although rich, Hungary's tech talent pool is not infinite, and as more and more organizations look to tap into it, salaries are increasing. To persuade these sought-after professionals to join, newcomers to Hungary must create attractive proposals with extended benefits packages, flexible working models, and competitive wages tied to inflation rates and stable western currencies.

Here we present some of the monhtly gross salaries for key tech and engineering roles. Although there are increasing, they are still a fraction of those in economies further west dealing with greater skills shortages:

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	Junior SW Engineer (0-3 years)			Medior SW Engineer (3-5 years)		
Position	Min	Max	Average	Min	Max	Average
C/C++ Developer	650 000	950 000	800 000	950 000	1 200 000	1 100 000
Java Developer	650 000	1 000 000	900 000	1 000 000	1 450 000	1 400 000
C#/.NET Developer	650 000	1 000 000	850 000	1 000 000	1 500 000	1 350 000

	Senior SW Engineer (5+ years)			Architect / Team Lead / Management		
Position	Min	Max	Average	Min	Max	Average
C/C++ Developer	1 200 000	1 600 000	1 400 000	1 400 000	2 000 000	1 600 000
Java Developer	1 500 000	2 000 000	1 800 000	1 800 000	2 500 000	2 400 000
C#/.NET Developer	1 500 000	1 800 000	1 700 000	1 800 000	2 400 000	2 000 000

	Junior Engineer (0-3 years)			Medior Engineer (3-5 years)		
Position	Min	Max	Average	Min	Max	Average
System/Network Administrator	550 000	800 000	650 000	800 000	1 050 000	950 000
Database Administrator	600 000	900 000	750 000	900 000	1 250 000	1 150 000
System Engineer	550 000	850 000	700 000	850 000	1 200 000	1 100 000
Network Engineer	550 000	850 000	700 000	850 000	1 200 000	1 100 000
Cloud Network Engineer	650 000	900 000	800 000	900 000	1 500 000	1 300 000
DevSecOps/Cloud Engineer	700 000	1 000 000	850 000	1 150 000	1 600 000	1 400 000

	Senior Engineer (5+ years)			Architect / Team Lead / Management		
Position	Min	Max	Average	Min	Max	Average
System/Network Administrator	1 050 000	1 300 000	1 200 000	1 400 000	1 600 000	1 500 000
Database Administrator	1 250 000	1 600 000	1 400 000	1 550 000	1 800 000	1 700 000
System Engineer	1 100 000	1 450 000	1 300 000	1 450 000	1 750 000	1 600 000
Network Engineer	1 100 000	1 450 000	1 300 000	1 450 000	1 750 000	1 600 000
Cloud Network Engineer	1 500 000	2 000 000	1 750 000	2 000 000	2 600 000	2 400 000
DevSecOps/Cloud Engineer	1 600 000	2 200 000	1 850 000	2 200 000	2 800 000	2 550 000

	Junior Engineer (0-3 years)			Medior Engineer (3-5 years)		
Position	Min	Max	Average	Min	Max	Average
Product Owner/Manager	750 000	1 000 000	900 000	1 000 000	1 400 000	1 200 000
Project Manager	750 000	1 000 000	900 000	1 000 000	1 400 000	1 200 000

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	Senior Engineer (5+ years)			Architect / Team Lead / Management		
Position	Min	Max	Average	Min	Max	Average
Product Owner/Manager	1 400 000	1 600 000	1 500 000	1 600 000	2 000 000	1 700 000
Project Manager	1 400 000	1 600 000	1 500 000	1 600 000	2 000 000	1 700 000
Engineering Manager	-	-	-	1 600 000	2 200 000	1 800 000

JUNIOR ENGINEER (0-3 YEARS OF EXPERIENCE)

Position	Min	Max	Average
Production Engineering	550 000	600 000	550 000
Quality Engineering	550 000	750 000	700 000
Test Engineering	550 000	800 000	600 000
Maintenance Engineering	500 000	600 000	570 000
Mechanical R&D	500 000	675 000	575 000
Electrical R&D	550 000	825 000	600 000

SENIOR ENGINEER (3+ YEARS OF EXPERIENCE)

Position	Min	Max	Average
Production Engineering	750 000	950 000	850 000
Quality Engineering	750 000	850 000	800 000
Test Engineering	750 000	1 000 000	900 000
Maintenance Engineering	750 000	950 000	850 000
Mechanical R&D	750 000	1 150 000	975 000
Electrical R&D	825 000	1 300 000	1 000 000

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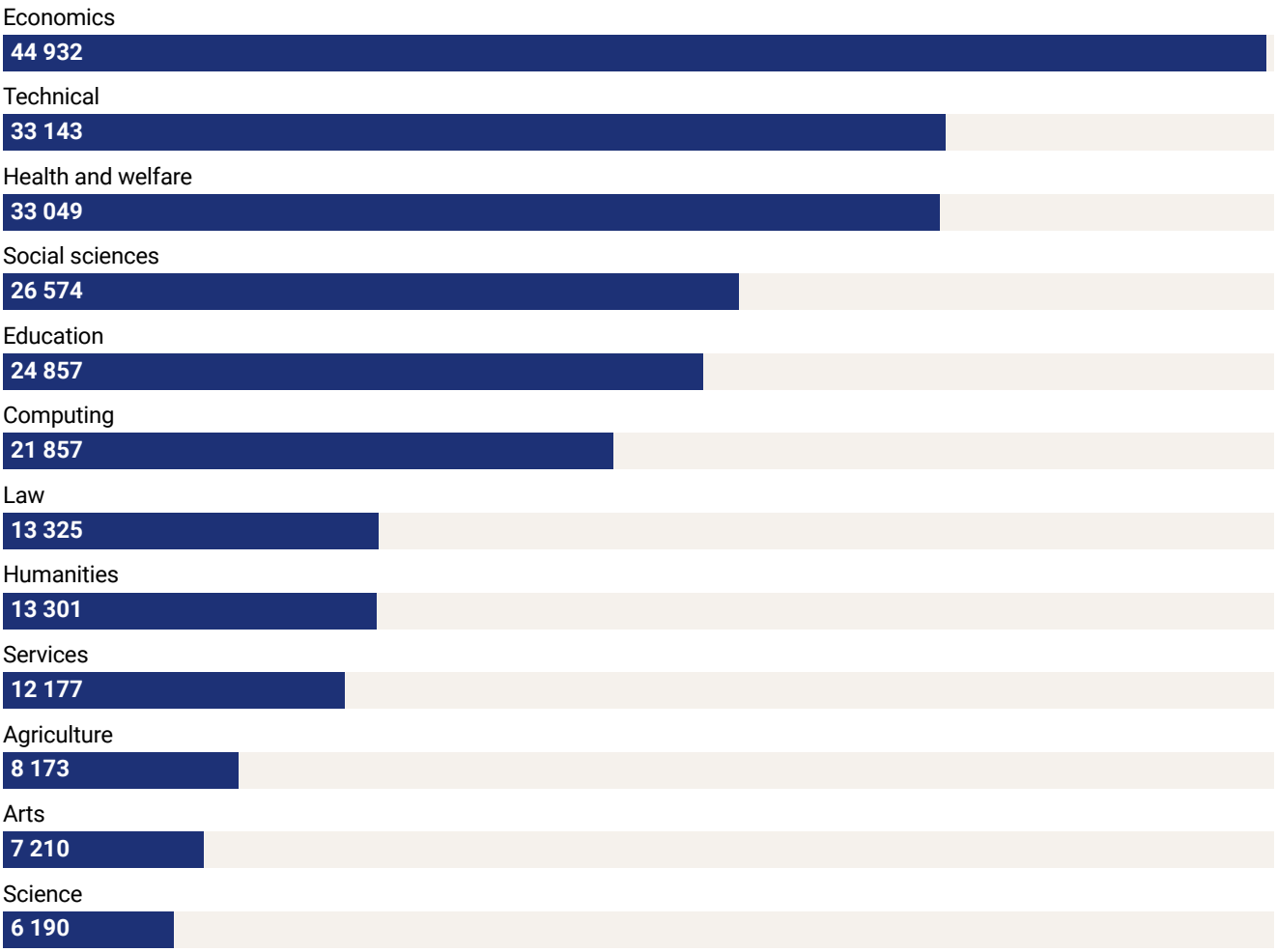
Skilled, Multilingual Talent

Hungary continues to be a pivotal destination for new investors due to the ability of its talent pools to provide solutions for most support functions within the SSC (Shared Service Centre) industry. New investors can find exceptional workforce and advantageous cost-quality ratio in Hungary compared to countries further east. The Hungarian market can successfully provide the required talent in the most sought-after professions.

University graduates usually speak two foreign languages by the time they leave their studies, forming a vast talent pool for various entry level positions that require confident language skills.

Students in university by fields of study 2022/2023*



*Source: Hungarian Central Statitistical Office, https://www.ksh.hu/stadat_files/okt/hu/okt0005.html

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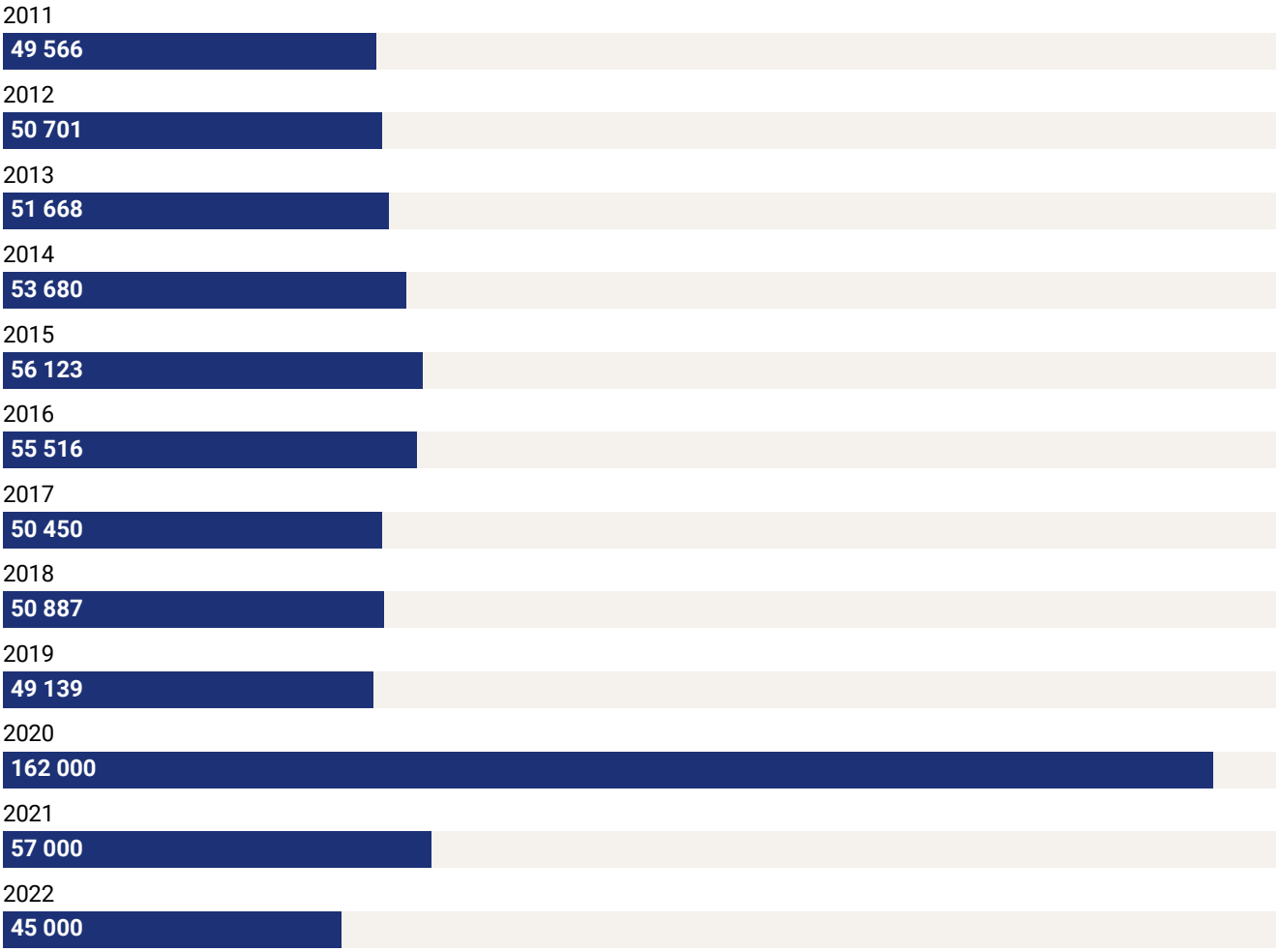
At the same time, there is also no shortage of more experienced professionals either. As the country has been an important destination for SSCs for many years, there are now numerous candidates with complex knowledge in the market who can fulfil the needs of new investors with ease. Furthermore, we find native speakers of English and other western languages are also the pool of highly qualified candidates with excellent language skills. This is because over 60% of students study two foreign languages, with English, German, Spanish, French, Italian, and Russian being the most popular languages studied. By the time they graduate, more than 70% of students have work experience, and it is not surprising that this is often in SSCs.

Total numbers of graduates in Hungary**



**Source: Hungarian Central Statistical Office, https://www.ksh.hu/stadat_files/okt/hu/okt0022.html

All university students need to have at least one, but preferably two language exams in order to graduate.

60,4%
of students are studying two foreign languages. Most common second languages after English are German, Latin, Spanish, French, Italian and Russian languages.

31%
of students gain international experience during their studies.

70+%
of students have work experience by graduation.

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Hottest Roles, Salaries & Trends in SSCs

In the talent market, customer service and finance professionals remain in high demand. In response to HIPA's Business Services Hungary 2023 study , 55% of the companies involved stated that they would like to bring new services or functions to Hungary. Over 50% of newly established functions would operate in the Finance, Accounting and Controlling sector. IT would come in second place, with 26% going for Customer Service.

It is evident that value-added roles are becoming more significant in the Hungarian SCC industry. The SSCs have a stable home in what is an expanding and very profitable market. The results of HIPA's most recent survey revealed that 81% of participants did not transfer any functions outside of their Hungarian centre–there was simply no need.

During the pandemic the attrition rate within the sector dropped significantly and the talent pool narrowed due to the unpredictable nature of the economic situation. As the sector pushed through, the rates slowly increased, and people were more willing to discover new opportunities.

Especially greenfield or brownfield projects and mass expansions draw a lot of attention to the market, as these are the main attractions for skilled candidates. The typical attrition rate is 10-15% for Finance positions, and 10-35% for Customer Service and IT Support functions, due to shifts and the higher demand for those type of roles. The lower percentage point is usually for captive or hybrid centres. The highest can be observed in cases of BPOs.

The market has responded well to the challenges of the current economic climate. Not only did 71% of companies bring in new functions to the already established centres, but salaries have also increased by 10-15% on average. The competitive salary is in the forefront for any candidate considering a change, so it is pivotal for a company to be able to offer such a package. On the other hand, factors such as flexibility in working hours, possibility to work from home at least 2-3 times a week and ensuring a healthy work life balance follow very closely. Companies have also started to use and introduce various other attracting benefits such as joining bonus or tying wages to the inflation rates to acquire the best talent.

Here we present some salary data for these kinds of roles :

Accountant	Min	Max	Typical
Junior (0-3)	530.000	800.000	670.000
Senior (3+)	720.000	1.000.000	850.000

Financial Planning & Analyst	Min	Max	Typical
Medior (1-3)	680.000	950.000	850.000
Experienced (3+)	850.000	1.500.000	1.050.000
Manager	1.300.000	2.000.000	1.700.000

Customer Service	Min	Max	Typical
Junior (0-3)	450.000	650.000	550.000
Senior (3+)	580.000	700.000	630.000

Since the salaries above are calculated for English speaking positions only, you can find the language allowance rates below.

Language Allowance	
German, French	12-17 %
Italian, Spanish, Portuguese	10-15 %
Czech, Slovak, Slovenian, Romanian, Bulgarian, Serbian	10-15 %
Chinese, Japanese	10-15 %
Turkish, Arabic, Greek	10-15 %
Polish, Russian, Hebrew, Dutch, Nordic*	15%+

As already mentioned in this report, over the past 10-15 years CEE has become as a hotspot for shared services centers (SSCs) and business process outsourcing (BPO) investments. Traditionally, destinations for such investments competed based on competitive costs, attracting investments for lower value-add and less sophisticated roles. However, in recent years, and arguably to Hungary's benefit, the landscape has been evolving, with a growing emphasis on higher value-add functions, innovation, and research and development (R&D). These growing trends have been largely supported by government initiatives including generous financial incentives to subsidies such operations.

Hungary, with Budapest as its primary investment hub, has played a prominent role in CEE's SSC and BPO sector. The country offers competitive cost structures and a highly skilled workforce, making it an attractive destination for a wide range of functions. Budapest in particular has seen significant growth in SSCs and BPO centers, servicing industries from finance and IT to customer support and data analytics. Hungary's strategic location in Central Europe further enhances its appeal as a business outsourcing hub.

Traditionally, CEE countries like Hungary have focused on providing cost-effective services for routine and standardized tasks. However, the evolving business landscape has prompted a shift in strategy. Companies are now looking to leverage the region's talent and capabilities for higher value-add functions. This shift towards more sophisticated roles includes innovation, research and development, data analytics, and complex problem-solving.

In this changing landscape, Hungary, like other CEE nations, is earning a title as an innovation hub, offering not only cost advantages compared to western European markets and the US, but also a talent pool capable of driving strategic initiatives. Companies are increasingly recognizing the potential for innovation and high-value services in the region, aligning with the broader trend of global businesses seeking to diversify and optimize their operations.

As Hungary and the wider CEE region continues to nurture its skilled workforces and adapt to evolving market demands, it is poised to play an even more significant role in supporting global companies in their pursuit of operational excellence and innovation.

Offices Turned Innovation Hubs

The SSC (Shared Service Center) and BPO (Business Process Outsourcing) sectors have always been and will remain active in the Budapest office market. Office employment forecasts and the global development of the knowledge economy suggest that IT and related sectors will continue to expand in Budapest. This is demonstrated by the emergence of new players such as Diligent, which has chosen Budapest as its global product innovation hub for 2020.

CASE STUDY – DILIGENT

In response to a series of strategic acquisitions, Diligent embarked on a mission to streamline its dispersed technology operations and establish a cutting-edge R&D hub. The executive team at Diligent recognized the need for a centralized European presence and enlisted the services of the C&W consulting team to identify suitable European markets. While their initial focus was directed toward Western European markets, the ongoing collaboration led to a shift in focus towards Central and Eastern Europe. The C&W consulting team thoroughly conducted a comprehensive multi-stage analysis, guiding the selection process from an initial list of 12 candidate cities to a final shortlist of two prospective markets. Subsequently, following a rigorous in-person validation visit to Budapest, attended by the CFO and senior leaders of the technology teams, Diligent made the strategic decision to establish its new Research and Development center in Budapest. This choice was driven by Budapest's compelling combination of a favorable cost-to-quality talent ratio, attractive government incentives, and an appealing living environment.

Diligent is just one of a number of tech companies who have experienced huge growth with Budapest as a base. The city has become a thriving ecosystem of innovative operations, and the office market is on the up. Next, we look at the office in more depth, covering shifting cultures, demand and vacancy, and sub-regions of Budapest.

SECTION 3: **HUNGARY** UNDER THE **LENS**
SECTION 3.3: BUDAPEST'S **OFFICE MARKET** AND **TRENDS**

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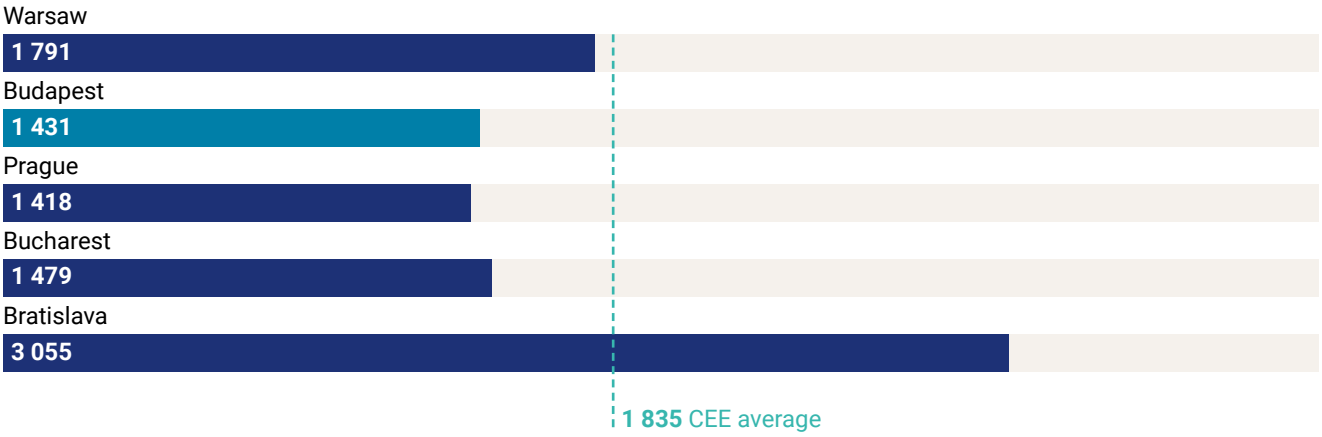
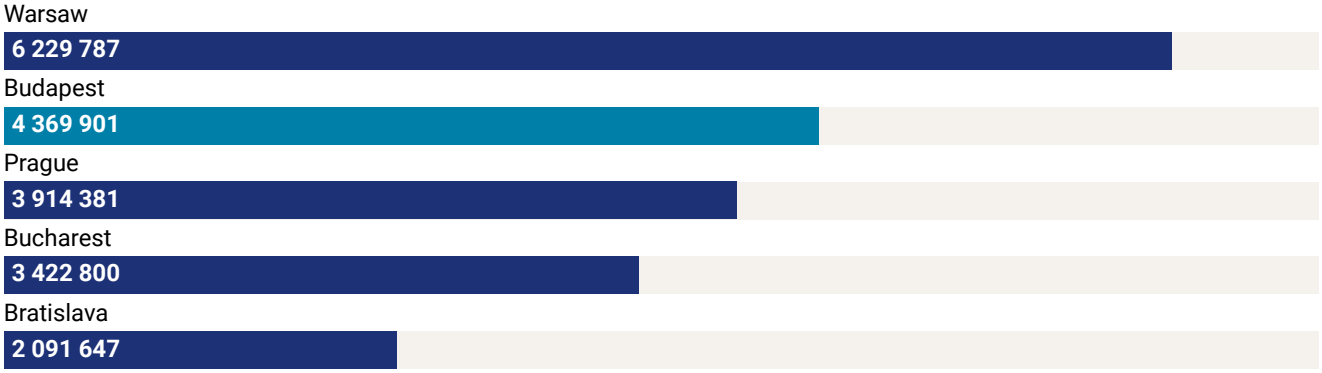
Office stock per metro population in the CEE capital cities year-end 2023



Total office stock in the CEE capital cities year-end 2023 (sq m)



With 4.37 million sq. m of office space and an annual demand averaging around 440,000 sq. m in recent years, Budapest's office market ranks among CEE's largest, second only to Warsaw. However, its per capita office space is the region's second lowest, highlighting considerable growth potential and an evident under-supply despite recent new deliveries.

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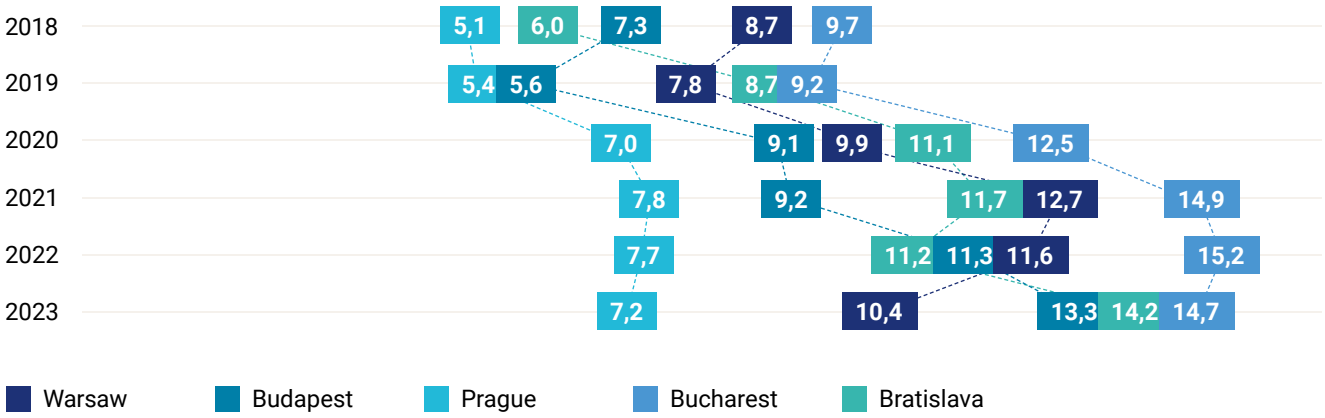
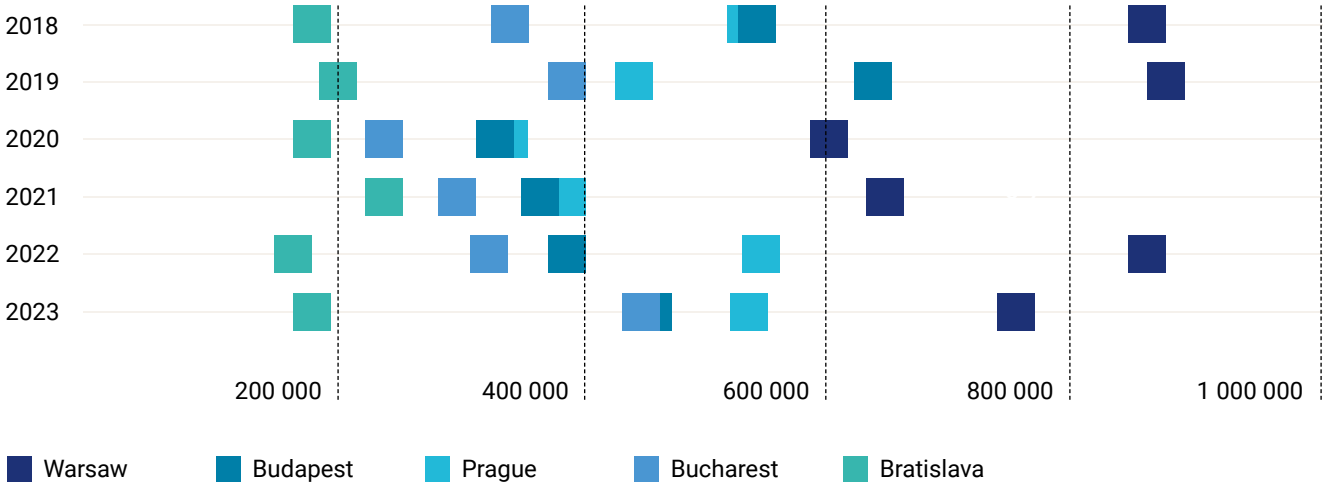
SECTION 3.3: BUDAPEST'S **OFFICE MARKET** AND **TRENDS**

Budapest consistently achieves the second-highest take-up of office space within the capital cities of the region. Whilst take-up was second only to Bucharest, the city's vacancy rate saw an uptick in 2023 due to new office deliveries, positioning it above both Prague and Warsaw.

Office market vacancy rate in the CEE capital cities (%) in 2018-2023



Office market take-up in the CEE region (sq m) in 2018-2023

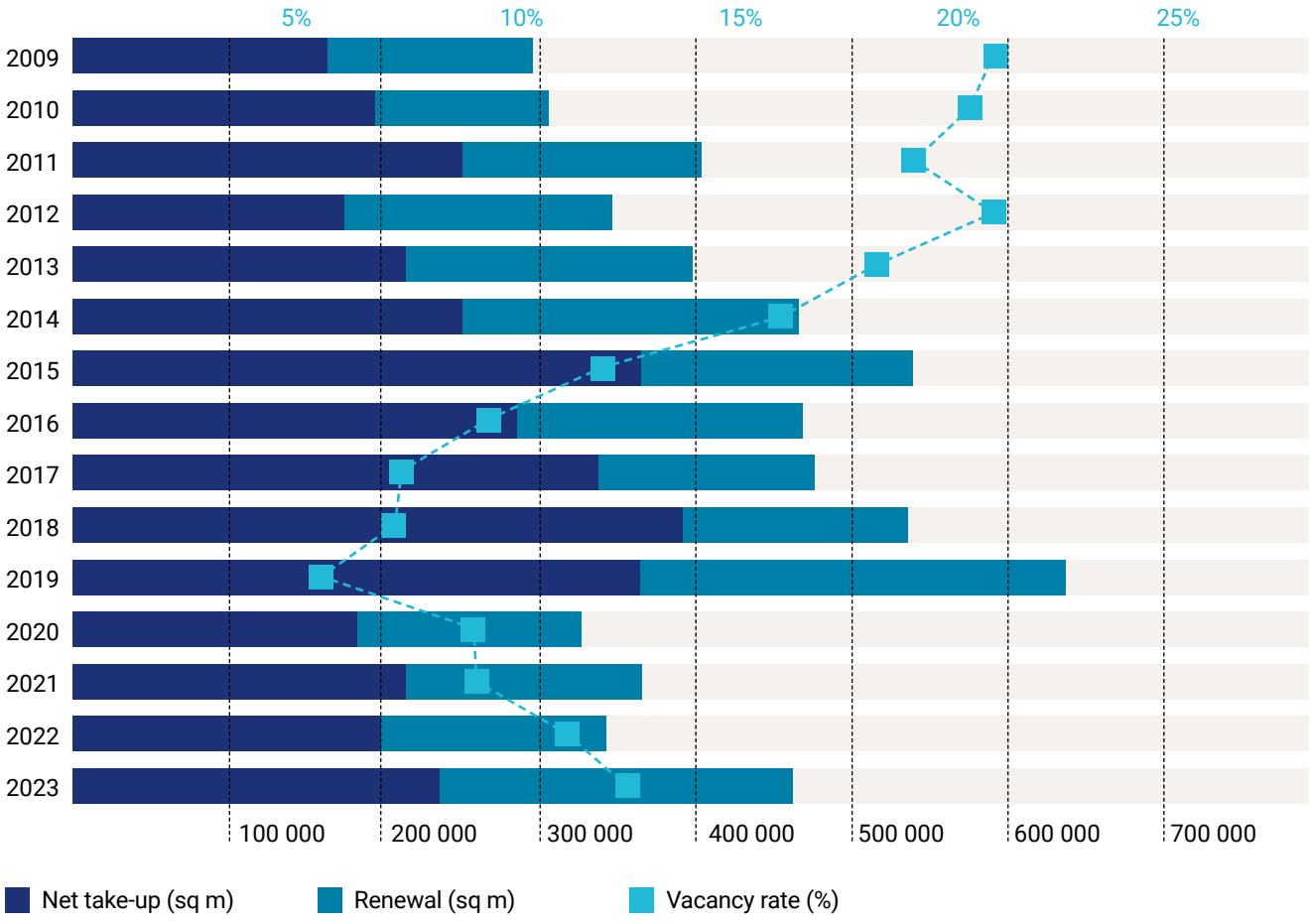


SECTION 3: **HUNGARY** UNDER THE **LENS**
SECTION 3.3: BUDAPEST'S **OFFICE MARKET** AND **TRENDS**

Budapest's office market has exhibited resilience and growth since the pandemic-induced disruption of 2020. 2023 saw a 19% increase in" official" take-up, following earlier increases of 10% in 2021 and 7% in 2022. This trend underscores Budapest's reputation as a thriving regional business hub and is in contrast to the trend across European markets, where a 16% decrease in take-up is expected for 2023 - due to the ongoing evaluation of the balance between in-office and remote work arrangements.

Budapest's resilience can be attributed to factors such as its appeal as a cost-effective and strategically situated business hub. Nonetheless, despite this positive momentum, the growth in demand remains slightly below the 10-year average. This landscape reflects both recovery and acknowledgment of the ongoing shift in work dynamics.

Demand (sq m) and vacancy rate (%)



The Largest Office-Based Employment Region in CEE

Hungary remains a prominent player in near-shore outsourcing, with Budapest serving as a preferred destination for international firms aiming to streamline costs through BSCs. Budapest's economic growth, driven by a robust BSC sector, positions it favourably against its Central European counterparts, with continued growth expected in the coming years. Key industries such as finance, accounting, insurance, and business consultancy offer ample employment opportunities. Budapest has boasted the highest office employment levels in the region since 2015, a trend expected to persist in the years ahead.

Occupier's Perspective

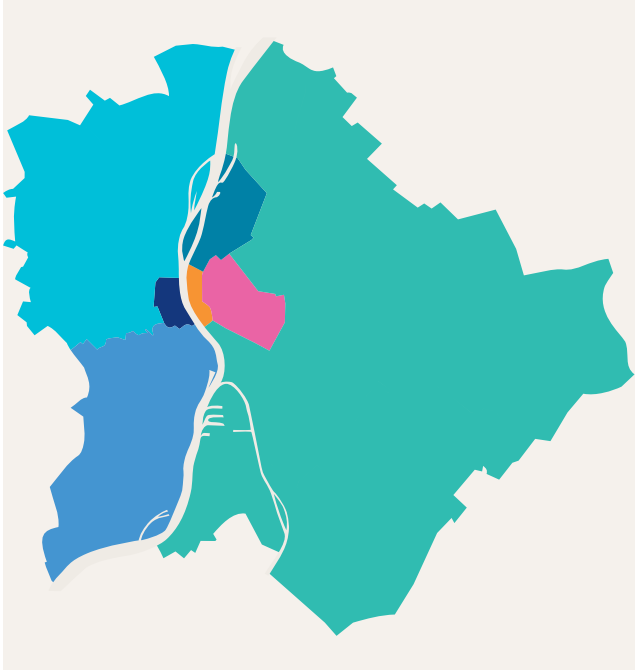
2020 has disrupted old operating models, and new habits have emerged, notably with the widespread adoption of the home office. Companies have recently begun to consciously assess their options and revalue their real estate to create a place for returning employees to be productive. These spaces need to be highly functional and sustainable, offering a high-quality experience to encourage engagement while balancing costs.

Only 28% of SSCs surveyed by HIPA plan to downsize their offices. In other words, the new employment impact of the home office will have a more fundamental impact on office use than office size. According to the survey, the proportion of collaborative spaces and individual workspaces will increase in the future, but hot desking will become more common.

In the Budapest market, neither headline rents are falling nor lease periods are shortening - although hand back options are more common in new developments and break options in second-generation projects. The projected increase in subletting has not materialised.

The Submarkets in Context

With 4.37 million sq m of office space, Budapest's office market is usually divided into eight submarkets. Each submarket has different characteristics and attracts different types of occupiers. The Váci corridor is the largest submarket exceeding 1,100,000 sq m in stock. Larger occupiers tend to gravitate along a north/south line running down the Váci corridor, then south of the CBD along either side of the Danube.



Non-Central Buda North: Primarily a high-end residential area, Districts III, II, XII has delivered isolated buildings in addition to small clusters and even a campus development in the form of the IT focused Graphisoft Park.

Central Buda: As with the CBD, this is a historic core and there are limited institutional grade buildings or opportunities to develop in this zone. This area is popular amongst SMEs.

Non-Central Buda South: This area saw a lot of development, as developers sought to create an alternative back-office destination to the Váci corridor. Much of the area has poorer communication links than the Váci corridor, but it benefits from the substantial District XI workforce and central locations benefit from proximity to universities.

Non-Central Pest: This is a general area encompassing "everything else" in Pest, it has a mix of classes of products, but it is one of the most dynamically developing submarkets of the city. The area has seen scattered developments along Hungária krt and Könyves Kálmán krt. These focal points have emerged typically along fixed-track public transport.

Váci út corridor: This is Budapest's "office corridor" and has seen substantial development having available sites, work good communication links through the metro line, Danube bridges and the substantial Váci út. It is the primary "back office" location for international tenants.

CBD: A historically protected area; there are few class A products meaning the CBD is effectively the smallest in the region, and there are few opportunities to develop further. Popular amongst SME's and professional service providers.

Central Pest: Covering a large area to the east and south of the CBD, Central Pest has seen development in consolidated pockets, particularly along the river. Southern parts benefit nearby residential developments and proximity to universities.

Periphery: Comprising buildings outside the city borders (practically Budaörs, Törökbálint, Biatorbágy, Vecsés), these areas were delivered pre-crisis and are not popular amongst occupiers.

Remote Work Shifts

With the rise of remote work since the pandemic, a notable trend in location strategy is the growing preference for regional cities and tier 2 markets as attractive alternatives to tier 1 cities. As talent pools in tier 1 cities become increasingly depleted and competition drives up costs, companies are looking beyond traditional urban hubs. Regional cities offer several advantages, including access to a skilled workforce, often at a lower cost compared to their tier 1 counterparts. Additionally, these locations provide a favorable quality of life, reduced competition for talent, and the potential for cost savings, making them an appealing choice for companies seeking to maintain their competitive edge while optimizing their operational expenses.

Next, we take a sneak peek at the taxation system in Hungary.

SECTION 3: **HUNGARY** UNDER THE **LENS**
SECTION 3.4: LOOKING AHEAD AT TAX

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The primary forms of national taxes are corporate income tax, local business, value added tax, innovation contribution and special surtax of certain industries. Hungary's 9% corporate income tax rate is the lowest in the European Union. There is no capital gains tax if participation exemption applies, and no withholding tax is levied on dividends, interest or royalty payments made to corporate entities. Furthermore, there are several tax incentives available in relation to R&D ('research and development') activities. The employer taxes on employment are continuously decreasing. The above makes Hungary an attractive location for companies with different type of activities.

Read on for a full breakdown of taxes and financial matters in **Section 4.**

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SECTION 4: **GETTING SET UP**
SECTION 4.1: PROCESSES & LEGALITIES FOR **REGISTERING A BUSINESS**

Once the decision to enter the market and expand in Hungary has been taken, there are certain things to be considered, for example, the legal structure as there are mandatory steps and rules applicable to how foreign companies can commence and operate a business in Hungary.

The following legal entities can be incorporated in Hungary: general partnership (in Hungarian: közkereseti társaság), limited partnership (in Hungarian: betéti társaság), limited liability company (in Hungarian: korlátolt felelősségű társaság; "**LLC**"), private company limited by shares (in Hungarian: zártkörűen müködő részvénytársaság), branch office of a foreign entity (in Hungarian: külföldi vállalkozás magyarországi fióktelepe, "**Branch Office**") and representative office of a foreign entity (in Hungarian: külföldi vállalkozás magyarországi kereskedelmi képviselete).

In Hungary, an LLC and a Branch Office are the most used and convenient company forms. The establishment of such entities require a formal court procedure commenced before the competent Hungarian Court of Registration based on the corporate documentation prepared by a Hungarian attorney-at-law.

Limited liability company ("**LLC**") (in Hungarian: korlátolt felelősségű társaság)	**Branch office** ("**Branch**") (in Hungarian: külföldi vállalkozás magyarországi fióktelepe)
Legal form	
An LLC is a **private business association** (company) that **has a legal personality that is separate from its founders/ members and those responsible for its management**. As such, it can, in its own name, own property, enter into contracts, be the subject of legal claims (either as claimant or defendant) and take legal action associated with such claims and act in various other ways.	A Branch Office is the organizational unit of the founding foreign company without separate legal personality, vested with financial autonomy and registered as an independent form of company in the Hungarian Companies' Registry as a branch office of the foreign company. **It has legal capacity to acquire rights in the name of the foreign company and to assume obligations on behalf of the foreign company**.
Establishment	
An LLC may be **founded by one or more members**, and it is registered in the Hungarian Companies' Registry. It is established by its member(s) with an initial capital consisting of capital contributions of a predetermined amount, in the case of which, the **liability of member(s) to the company extends only to the provision of their initial contributions,** and to other contributions set out in the deed of foundation of the LLC.	A Branch Office if **founded by the foreign company**. Its **incorporation requires a formal court procedure** commenced before the competent Hungarian Court of Registration based on the corporate documentation prepared by an attorney-at-law. A Branch Office is regarded as established when it has been entered into the Hungarian Companies' Registry.
The **establishment and registration** of an LLC **takes approx. 1-3 days (in case of using a template deed of foundation)** or **1-3 weeks (in case of using a tailor-made deed of foundation)**, as of the submission of the registration request with the court.	The **establishment and registration** of a Branch Office **takes approx. 1-3 weeks**, as of the submission of the registration request with the court.
Prior to the registration of an LLC, a **preliminary tax registration** procedure is conducted, during which the Hungarian tax authority issues the tax number of the LLC.	Prior to the registration of a Branch Office, a **preliminary tax registration** procedure is conducted, during which the Hungarian tax authority issues the tax number of the Branch Office.

SECTION 4: **GETTING SET UP**
SECTION 4.1: PROCESSES & LEGALITIES FOR **REGISTERING A BUSINESS**

Share capital	
The **minimum registered capital** of an LLC is **HUF 3,000,000 (approx. EUR 7,600)**, which is comprised of business quotas (registered interests which do not appear in material form), comprising of cash or in-kind capital contributions or the combination of the two.	There is **no minimum capital requirement applicable** for a Branch Office, but the founder shall provide continuous financial resources for the operation of the Branch Office and the settlement of its liabilities. The allocation to the Branch Office can be made in cash or in-kind.
Representation	
The **management of an LLC is conducted by one or more managing directors, or a board of directors** can be established instead of appointing individual managing directors. Two or more executives may have joint or individual representation rights. At least one representative needs to be appointed.	The Branch Office is **represented by the appointed branch manager(s)**. Such branch manager(s) can be appointed for a definite or indefinite period of time and their representation right can be joint or individual. At least one branch manager needs to be appointed.
Liability	
Generally, **an LLC shall be liable for its debts with its own assets; members and founders of the LLC shall not be held liable for the LLC's debts**. However, in the event of abuse of limited liability on the part of any member of an LLC, on account of which any outstanding creditors' claims remain unsatisfied at the time of the LLC's dissolution without succession, the member in question shall be subject to unlimited liability for such debts.	The founding foreign company and the Branch Office shall be **subject to unlimited joint and several liability for the debts of the Branch Office incurred during its activity**.
Business activities	
Business activities may be carried out by the LLC. If any specific permission is required for any of the intended scope of activities, the LLC may not carry out such activities until the permission or license is obtained.	The founding foreign company is entitled to conduct entrepreneurial activities through its Branch Office. Generally, during such activities, the Branch Office proceeds in legal relations with the authorities and with third parties in connection with the Branch Office.

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Earlier we touched on Hungary's 9% corporate income tax being the lowest in the EU. Going further than that, here we present an illustration of all the main taxes:

Corporate income tax, value added tax, transfer pricing	
Corporate income tax (branch tax) rate	9%
Basis	• Resident company: worldwide income • Non-resident company: Hungarian source income • Branch: similar to resident companies with some special adjustments
Taxable income	Accounting profit, adjusted by certain items. Normal business expenses are generally deductible.
Minimum tax base	2% of the adjusted gross revenue
Interest deductibility	Maximum of 30% of the EBITDA or HUF 939 million (whichever is higher)
Withholding tax	0% on dividend, interest, royalty payments made to resident/non-resident corporations
Capital gains tax rate	9% (but participation exemption is available for capital gains on shareholdings if certain conditions are met and for dividend income)
Tax losses	Tax losses, may be carried forward for 5 tax years; can be used up to 50% of the given year's positive tax base must be used on a FIFO basis; carry back is available for agricultural entities
Treaties on the avoidance of double taxation	More than 80 double taxation treaties
Controlled foreign company rules	Yes (ATAD Model B)
Incentives (cash grants, R&D tax incentives, development tax incentive etc.)	Available for investors
Transfer pricing rules	Yes
VAT	• 27% (standard tax rate) • 18% and 5% (reduced rates are applicable on certain goods and services)
Tax consolidation	Available both for VAT and CIT purposes
Accounting principles	Hungarian accounting standards. IFRS can be applied.

SECTION 4: **GETTING SET UP**
SECTION 4.2: A **SUMMARY** OF **THE TAXES**

Employment taxes	
Personal income tax	15%
Social security contribution (payable by employee)	18.5%
Social tax (payable by employer)	13%
Certain benefits to employees with preferential taxation	Available • (Fringe benefit: benefit * 15% personal income tax + 13% social tax; • other specific benefit: benefit * 1.18 x 15% personal income tax + 13% social tax)
Employment of non-EEA nationals	Subject to single (residence and employment) permit

Other taxes	
Capital duty	Not applicable
Stamp duty	Various rates are applicable in administrative and court procedures
Building tax / land tax	May apply at municipal level at different rates, it is in discretion of the municipalities' decision, certain municipalities do not levy. • building tax: max. of HUF 1,100 per m², or 3.6% of the adjusted turnover value; • land tax: max. of HUF 200 per m², or 3% of the adjusted turnover value
Real estate transfer tax	• 4% up to a value of HUF 1 billion and 2% on the excess, capped at HUF 200 million per property; • applies also to the acquisition of at least 75% of shareholdings in a real estate company
Local business tax	0-2% depends on the municipalities' decision, certain municipalities do not levy. The base is the net sales revenue less certain items (material costs, cost of goods sold, cost of intermediated services, R&D costs).
Innovation contribution	0.3%; the tax base is identical to the local business tax
Green taxes	Various types: environmental tax, environmental product fee, extended produced liability fee etc.
Payroll tax	Not applicable

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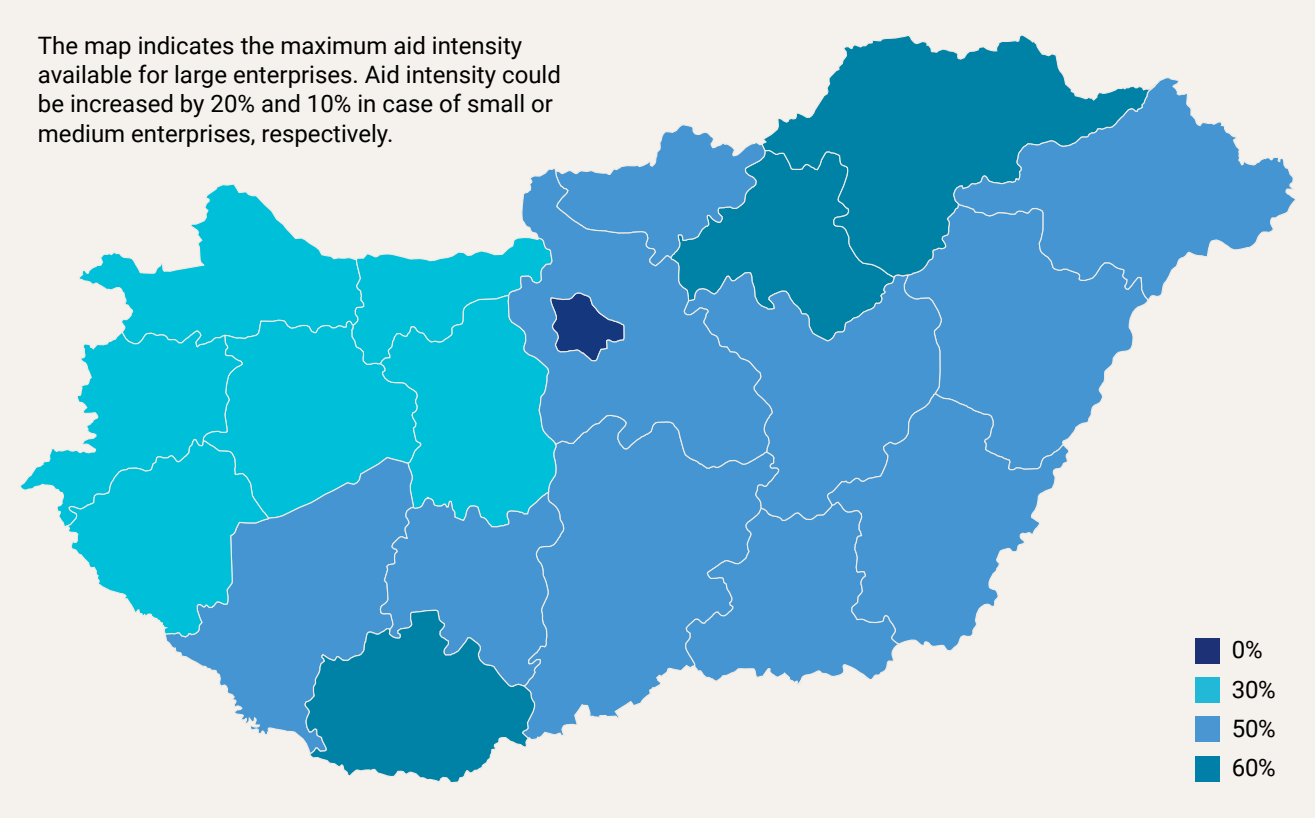
Demand (sq m) and vacancy rate (%)



The Hungarian government maintains several subsidy programs for the GBS industry covering various types of investments (CAPEX and OPEX investments, job-creation projects, research, and development projects) in the forms of non-refundable cash grants and tax allowances.

VIP Cash Grant

The VIP cash grant managed by the Hungarian Investment Promotion Agency is available all-year around for CAPEX and OPEX investments, but there is also an option for research and development (R&D) projects.

Investment-Based Options

For establishing or expanding a GBS cash grant is available either for the OPEX or the CAPEX part of the investment.

- OPEX-based cash grant option: Investor shall create at least 25 new jobs. The eligible costs are the 24-months-personnel costs of new employees.
- CAPEX-based alternative: eligible costs are the costs of new equipment and property investment, and they shall exceed EUR 3, 5 or 10 million, depending on the investment location (must be outside of Budapest).

For both cases, the amount of cash grant and the aid intensity (portion of the eligible costs that can be received as cash grant) is based on an individual government decision and depends on the type of investment, the region, the number of the jobs created, and must be in line with the regional aid map.

SECTION 4: **GETTING SET UP**
SECTION 4.3: **GOVERNMENTAL GRANTS AND FINANCIAL INCENTIVES**

R&D VIP Cash Grant

The R&D VIP cash grant scheme is available for investors plan to set up new or expand existing R&D centres. R&D projects creating at least 10 new jobs with eligible costs (e.g., personnel costs, rental fees, depreciation, material costs, contract R&D) of min. EUR 1 million in a 1–3-year period are eligible for the funding. The aid intensity is up to 25%/40% in Budapest / outside Budapest, and an additional aid intensity is available for applied research for up to 50%.

VIP Training Grant

For GBS investors, the VIP training grant is also available that promotes internal and external trainings of personnel (for a training period of max. 24 months per trainee). The incentivised training project shall be accompanied by an SSC creation or expansion, or an additional CAPEX investment – therefore the grant is synergizing well with the previous VIP cash grant options. The grant's main eligible costs are the trainers' and trainees' personnel costs, general indirect costs (administrative costs, rent, overheads), and certain operating costs. The grant amount is based on an individual government decision, with aid intensity up to 50%, but max. EUR 3 million / training project and EUR 5,000 / trainee.

Tax Incentives

In addition to the VIP cash grants, Hungary offers a wide variety of tax incentives for investors, for various investments and activities.

Development Tax Allowance (DTA)

The DTA is a tax incentive available all-year round in corporate income tax (CIT), for various types (investment, job-creation, R&D) projects. The aid intensity is up to 60% and must be in line with the regional aid map. The yearly incentive amount that could be utilized is up to 80% of the CIT payable, in a 13-year period.

The job-creation alternative in DTA is especially suitable for GBS investors – the investment project shall result in creation of new headcount, but there are no minimum requirements in terms of amount of eligible costs or new headcount to be created. In this case, the eligible costs of the investment are the 24-months personnel costs of the new employees, and the headcount shall be maintained for the monitoring period of 3 or 5 years. DTA could also be claimed for investments with a certain amount of eligible investment costs (HUF 0.1-3 billion, depending on the investment location), with commitment of the maintenance of headcount for 4 tax years following the first utilization of the DTA.

R&D Tax Incentives

Several tax incentives could be utilized in relation to the companies' R&D activities.

Tax base reductions are available in corporate income tax, local business tax and innovation contribution for the R&D projects in the companies' (and their affiliates') own scope of activities. By the deduction of direct costs of R&D activities (including e.g., not only personnel costs but contract research) from the tax base, a total of 11,3% tax saving can be reached.

In CIT, further incentives are available, for example, 50% of the profit made off royalties can be considered as a tax deductible-item, and an accelerated a depreciation of 50% can be applied for intellectual products, purchased, or produced in 2003 or later.

Furthermore, a tax reduction is available in social contribution tax – where the tax amount could be reduced by 50% on the wage costs of the R&D personnel recognized as direct R&D costs (if deducted, these types of costs cannot be deducted from CIT).

Additionally, a new R&D corporate income tax allowance has been introduced, that may be used up to 100% of the payable tax. If the taxpayer cannot use the tax allowance within four years, the tax authority will pay it out in cash. The taxpayer can either use this allowance or the previous R&D tax base incentives. If the taxpayer elects to use this regime, it will be bound to stay under this regime for 5 years. The incentive amount is up to 10% of eligible costs, up to EUR 55/35/25 million (depending on the type of R&D). The allowance could be fully used by taxpayers under the global minimum tax regime.

A CLOSING WORD

This guide has examined Hungary's investment potential from the top down. We started with an overview of Hungary's business environment as a whole before examining all the key factors any investor should consider when deciding about whether to move into a foreign county.

Hungary's lucrative taxation system and financial incentives for new investors make for an attractive proposition. Its talent pools are rich in technical capacities, and its workers are generally multilingual and culturally compatible with those of both western and eastern nations. There is ample support on hand to facilitate the logistics of moving into the country, and a thriving office scene to house those who do.

We hope we have given you the insights you need to better inform your final decision on Hungary. Finally, we thank you for taking the time to consult these insights and wish you success with any decision you make.

ABOUT **THE AUTHORS**

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If you have any questions or inquires regarding recruitment, please feel free to reach out to us.

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The Hungarian branch of Cushman & Wakefield stands as an absolute market leader across all sectors of the real estate industry with 9 service lines and a team of over 80 seasoned professionals. Celebrating its 30th anniversary in 2023, our Hungarian operations have consistently delivered exceptional results, setting benchmarks within the industry landscape. Throughout the years, among challenging economic climates, we have upheld our commitment to excellence, fostering unwavering enthusiasm and loyalty among our valued clients.

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hipa
HUNGARIAN INVESTMENT PROMOTION AGENCY

The Hungarian Investment Promotion Agency (HIPA) is a national investment promotion organisation governed by the Ministry of Foreign Affairs and Trade. HIPA's most important task is to provide professional assistance to foreign and Hungarian companies wishing to invest in Hungary.

Since its establishment in 2014, HIPA has been involved in closing 1,914 deals which resulted in an investment volume of EUR 36 billion and over 130,000 new jobs nationwide. In 2022 we broke all previous records as 92 projects generated investments worth EUR 6.5 billion.

We assist you at selecting the right business location, providing tailor-made incentive offers, finding suppliers, developing necessary public utility capacities and dealing with public authorities concerned by the implementation of the investment free of charge.

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In Hungary, Deloitte offers services with the assistance of more than 1,000 domestic and international professionals. We are committed to supporting the development and expansion of the business services sector in Hungary providing specialist consulting services to our Clients throughout their entire life-cycle.

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