

BUSINESS HUNGARY

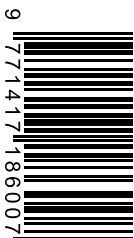
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SEPTEMBER 2009 – VOLUME XX/7



Flexibility and security

THE NEED FOR A NEW LABOR CODE



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Dear Members and Friends

WELCOME BACK, READERS of *Business Hungary*, after the well-deserved summer holiday! I am happy to report on some major events and initiatives for the period leading up to the end of 2009.

AmCham had an unusual summer as we started to prepare for a very active fall. We have more than a dozen professional and social events in September and October alone. Committees were very active this summer. To highlight only a couple, the Electronic Manufacturers' Committee is finalizing a new position brief, and we are progressing with the Healthy Workplace Award.

September was also the time of our first-annual Soccer Tournament at the brand-new worldwide sports center of the Hungarian Football Federation in Telki. This fully booked event was designed to combine team building and networking in a family event, and we hope many of you enjoyed the venue and, most importantly, the opportunity to be with your family.

Together with our partners, we initiated a dialogue on the principles of new labor legislation – also the focus of this issue – to be held on October 21. We will provide a platform for discussion involving business leaders, employers and employees, representatives, politicians, and experts, as the aim of the conference is to highlight the expectations of all stakeholders and to provide alternative solutions for policy makers. We believe that a need has come about for establishing a new basis for labor-law regulations, due to the structural changes in the Hungarian economy and the transformation of production methods. Furthermore, these are fundamental in increasing Hungary's global competitiveness.

Please also mark your calendar, as our annual general assembly is set for December 1, 2009. I would like to encourage all members to proactively participate and to consider running for available board positions. This year there will be a high number of vacant positions to fill – altogether seven – including first vice president, second vice president, and secretary treasurer.

I am also happy to report that AmCham started to establish good working relations with new officers of the US Embassy, in particular with Robert Peaslee and Marianne Drain. We are looking forward to an excellent cooperation and to work side by side to achieve the Mission Statement of AmCham in Hungary.

Last but not least, I am grateful for the significant support you have shown regarding the 20th anniversary of AmCham to be celebrated this November, as we are working hard to make this a very memorable and forward-looking event. I hope to see you at one of our forthcoming events and to share with you our new initiatives, ideas, and plans!

Best regards,
Gusztáv Bienérth



“We started
to prepare
for a very
active fall.”



Get the ball rolling

THE NEED FOR A
NEW LABOR CODE

Getting a process under way in which employers, employee representatives, and civil service and legal participants discuss the outline of an entirely renewed Hungarian labor code, is the main aim of an upcoming seminar. The event, which is being organized by the American and British Chambers of Commerce in Hungary, will be held on October 6. "A new labor code is absolutely necessary if we want to improve the competitiveness of Hungary and create new working places," says Ferenc Bati, chairman of AmCham's Labor and Education Council.

BY HENK HIRS

THE CURRENT HUNGARIAN LABOR code is a classic example of what legal regulation should not look like. Bati says: "The code is old, contradictory in itself, and politicized. Judges and lawyers have huge difficulty interpreting and using it, and it is criticized by everyone involved, employers as well as employees." Laszlo Bek-Balla, head of human resources with ING Bank and representative of the British Chamber, couldn't agree

more: "The current law is almost 20 years old and was written in and for an entirely different economic climate and labor market." Up until now, political parties have always opted for small corrections, and the code has been amended almost 50 times without much of a coherent vision. But it has never been restructured in such a way that it reflects the new economic system, let alone the general objectives of Hungary's present and future economic policies with its emphasis on developing service-oriented or other high-value-adding activities, he says. "What we need is a structural review instead of continuous quick fixing."

THE LABOR CODE SEMINAR

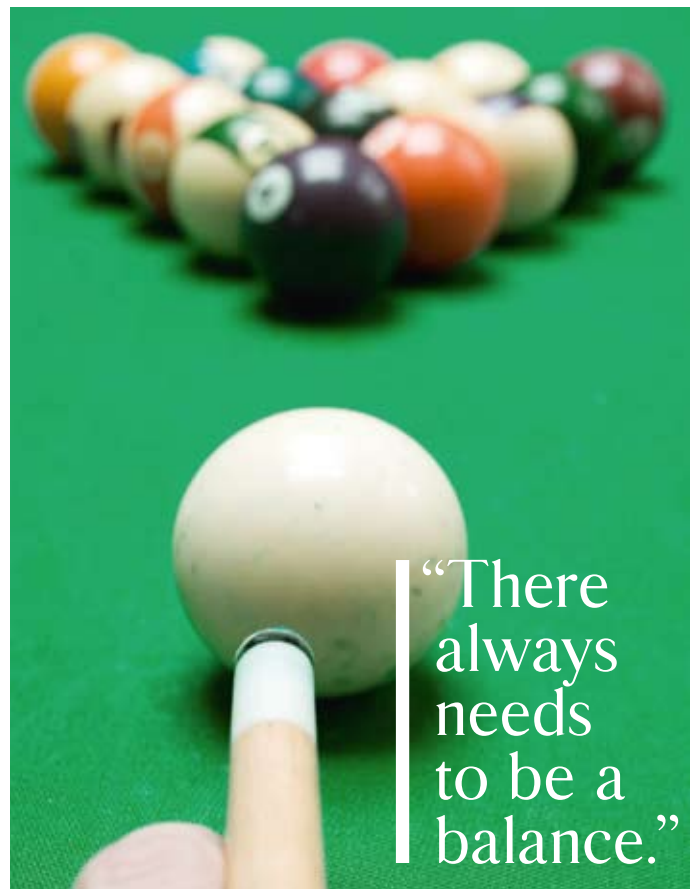
October 21, 2009
8:30 am – 4:30 pm

Place: Hotel InterContinental Budapest

Program:

8:30–9:10	Registration and welcoming notes
9:10–10:10	The labor market: international and national perspective
10:10–10:30	Why do we need a new labor code
11:00–12:00	Theses of the new labor code
13:00–13:45	Roundtable discussion with policy makers
13:45–14:45	Roundtable discussion with employers and employees
15:15–16:15	Roundtable discussion with CEOs
16:15–16:30	Summaries and closing remarks

The conference is organized by the American Chamber of Commerce in Hungary, together with the British and German Chambers, the Hungarian Services and Outsourcing Association, the Confederation of Hungarian Employers and Industrialists, the Hungarian Chamber of Commerce and Industry, the Confederation of Hungarian Trade Unions, the Joint Venture Association, and the National Association of Entrepreneurs and Employers, and as professional partners the Ministry of Social Affairs and Labor and the Ministry for National Development and Economy.



"There always needs to be a balance."



LOOKING FOR A BALANCE

BOTH BÁTI AND BEK-BALLA emphasize that this is not an anti-employee initiative, but that the main aim of the seminar is to start the process of negotiation between all stakeholders involved. “To a certain extent, employer associations and trade unions represent different interests, and that debate will always be there,” Bati says. “But at the same time, a company is nothing without its employees. Both sides need each other, and there always needs to be a balance, a compromise, between employer and employees.” What the Chambers aim for, Bati says, is to be a bridge and get all concerned parties together to discuss how to come as close as possible to a compromise that serves the long-term interests of everybody: companies, employees and their representatives, and the legal professionals and civil servants that have to work with this law. “We want to start the discussion, and we should try to at least agree on some guiding principles on which a new labor code should be founded,” Bek-Balla adds.

All this isn't to say that the Chambers, representing the interests of businesses, do not have their own views on what such a new code should look like. “We do, of course, but we are open to discuss these ideas with all stakeholders involved,” says Bek-Balla. According to Bati, the Chambers – seeing how they also represent many

multinational companies – are especially well-positioned to be involved in this issue as they have a very good understanding of what labor regulation should look like in a well-developed democratic country. “Of course, we cannot disregard the fact that Hungary is a small country in Europe. So even though we need to look at and learn from the American model, European models will be our main points of reference,” he says.

THINGS TAKE TIME

IT IS OBVIOUS that the recession played an important role in the planning of the initiative, says Bati. As far as AmCham is concerned, it all started at the end of 2008, a few months after the crisis hit home, when Delphi automotive systems came up with a plan to allow for more flexible working hours

in order to save jobs and counter the downfall in activity, especially in the automotive sector. Delphi asked AmCham for support, one thing led to another, and finally, AmCham teamed up with the British Chamber, which had also been debating this issue for several years.

Some people might be impatient because it is high time something happened, and the recession forces us to hurry even more, says Bati. But at the same time, things cannot be rushed: getting employers and employees to sit together, discuss, and agree simply takes time, he adds. As far as politics is concerned, he says government and opposition will not be left out of the process, but politicians will not play a major role for the time being. The players in the field are taking center stage. “We are talking to everybody – left, right, and center – and we're trying to be as balanced as possible. But everybody needs to understand that the objective is to improve the competitiveness of the country as a whole, and that that is in everybody's interest,” he says.

Obviously, if at a certain point in time stakeholders are indeed able to reach a compromise, any government would be foolish not to implement it. And according to Bek-Balla, having a modern labor code could help Hungary in the regional fight for investments to retain existing workplaces and create new ones. “Hungary might even become a front-runner in the CEE region again, at least in the field of labor legislation.” ★



Daily struggles

LABOR CODE
POSES
HUMAN-
RESOURCES
CHALLENGES

The overarching desire for a revised Hungarian labor code is that it be flexible and cogent, as the current regulations can be anything but, according to a selection of human-resources managers. “It is not very easy to use it because of sometimes small contradictions, but they are there. On an everyday basis, it’s hard to use the labor code for this reason,” says Soma Horváth, human resources and business services director at Sanoma Budapest. BY **MARISA BEAHM**

FOR THE PAST 17 YEARS, the modifications made in Hungary’s labor code did not solve the essential problems, as “these modifications were initiated through ad hoc deals by the current governments or the unions and were generated by actual political reasons, primarily,” says Tamás Horváth, HR director for Alcoa-Köfém. Since the time the labor code was adopted, Hungary’s economy has varied greatly, most notably in becoming a globalized economy, he adds.

“When it was written or prepared, at that time, we were just over the change of political system. The current version dates back to 1992 – a lot of things changed,” Soma Horváth says. In one instance, Hungary’s economy has shifted from having a strong agricultural focus and a light industrial focus to a diversified economy. Furthermore, many more multinational companies have entered the economy, which has placed a new interpretive pressure on the labor code.

In general, the most problematic areas in Hungary’s code fall under working hours, employment termination, maternity leave, and union agreements. As a result of these contentious challenges, there is a consensus that reform is needed, one that benefits both employers and employees. “We as the employers might be accused of wanting a new labor code in order to make hiring and firing easier, but I think that should not be the case,” Soma Horváth says. “Our ambition to change the labor code is not driven by making employees more vulnerable.”

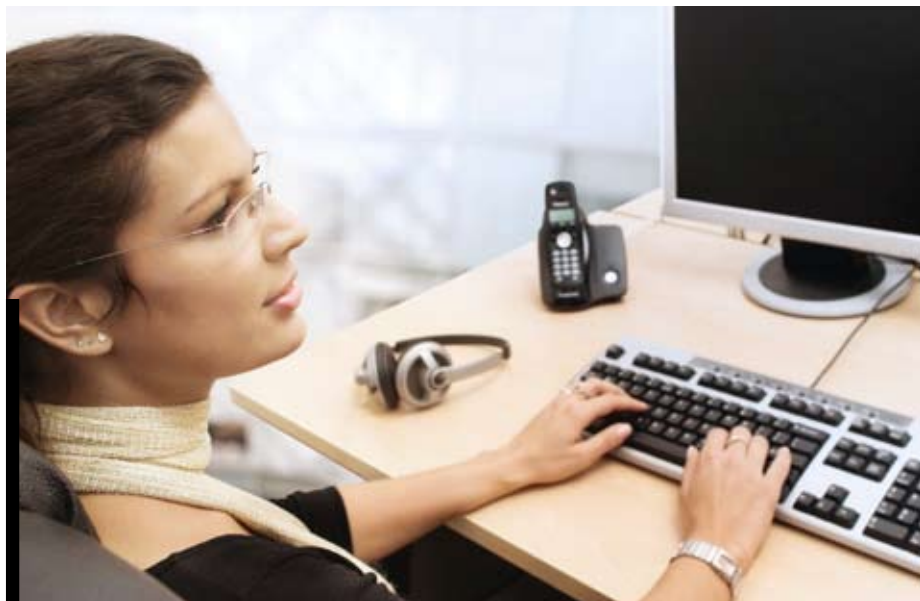
“We have to think about different categories of employees.”

WORKING HOURS

HUNGARIAN LAWS pertaining to working hours are too complicated and need to be more flexible, Soma Horváth says. Under the current law, a full-time employee is defined as someone who works eight hours a day or 40 hours per week. This may be increased to no more than 12 hours per day or 60 hours weekly for employees, according to Section 117/B of the code, although this law is altered for executives.

While Soma Horváth acknowledges that the law needs to protect employees from being abused by their employers, the rules of working hours need to be defined more clearly, and there should be more flexibility given to the employer in terms of treatment of varied types of workers. “For example, we have to think about different categories of employees, such as blue collar or white collar. I would somehow make more categories the higher we go in an organization,” he says.

Modifying employees’ work schedules under the strict law can be very difficult, adds Tamás Horváth, especially for companies that don’t have unions or bargaining agreements.



Furthermore, if a company were to hire temporary workers to meet demands, it can be risky, he says. For example, if his company hires a temporary employee from an agency, then he has many legal responsibilities for the new employee, like verifying his or her official employment. Because of this, many companies that hire temporary employees receive penalties from the government. “Additionally, there are lots of absolutely unnecessary administrative requirements that require time and money,” Tamás Horváth says. “A good example is what is required by the Hungarian labor code in connection with the work-time registering is like what was required 50 years ago.”

EMPLOYMENT TERMINATION

IN ADDITION TO ACCOMMODATING to workers’ schedules, concluding the schedules altogether is another daunting hurdle. “Today, if someone wants to fire a person, it takes quite a lot of time and energy, which is not right, because sometimes companies keep people who should be let go,” Soma Horváth says.

According to Section 89 of the code, under ordinary dismissal circumstances, employers must justify their discharges in a way that clearly indicates the cause. In the event of a dispute, the employer must prove the authenticity and substantiality of the reason of dismissal. “It takes months to make a sound justification, to do the right paperwork,” Soma Horváth says.

Also, many fired people take their employer to court, and with the overburdened court system, these cases can become very time-consuming, even though companies are becoming “better and better” at doing the paperwork, Soma Horváth says. For instance, his company has been involved in an employee-oriented

court case that will take probably two years to conclude, and if at the end of the case his employer loses, it will have to pay the plaintiff’s salary for the length of the case. “The court cases should be shorter. They should be able to do them in three to four months’ time,” Soma Horváth says.

What he proposes is that if a company wants to fire an employee, but doesn’t want to do the paperwork or litigation, they could provide a compensation package, Horváth says. “I don’t think it should be easier to lay off people, but companies should be able to do it if they want to do it. I think that a lot of time, money, energy, and court cases could be solved by being able to provide a compensation package,” he adds. “This is an example where I think a new labor code should be there; it should be much more flexible and factor in the needs of both [employers and employees].”

MATERNITY LEAVE

HOW HUNGARY ADDRESSES maternity leave is a very contentious issue and something that’s been “very, very mishandled,” Soma Horváth says. Maternity leave is governed throughout the labor code in numerous sections. For example, under Section 85, pregnant women or those with children under the age of 1 can be temporarily reassigned to a position suitable for her condition from a medical standpoint. Furthermore, under Section 138, women are entitled to 24 weeks of maternity leave and no less than six weeks starting from the date of birth. Also, mothers can take a leave of absence without pay to be a stay-at-home parent until the child reaches the age of three.

Maternity policy is a tricky question because most companies want to say they have a strong policy for this, since “children and the



Maternity leave is a very contentious issue.

Predictability is a key aspect.

family are very important to any company that has family values,” Tamás Horváth says. However, “Requirements are very rigid on the company side.”

There are many difficult issues within the current labor code, especially if a woman wants to return to her workplace after her leave of absence, since the company has to let her and cannot fire her during the leave. “The original reason of the maternity leave was to be with the children and to bring up them for a certain period. When Parliament changed the law providing a right to work during the maternity leave, this original reason was lost,” Tamás Horváth says. He adds that the terms of the leave and the intentions of the employer and employee should be discussed before the maternity leave begins.

“For women who go on maternity leave, the rules that are in effect today are the result of different political bargains, and that should not be the case,” Soma Horváth says. The law creates “impossible situations,” like if a woman returns from maternity leave and the employer cannot provide her with work, then she will receive salary benefits from the company, financial benefits from the state, and doesn’t have to show up to work, he adds. “This is an absolutely awkward situation, and employers can’t do anything,” Soma Horváth says. “This is a very typical example of strange things that are in the Hungarian labor code.”

UNIONS

WITHIN HUNGARIAN LAW there are some clear advantages to having unionized workplaces, Tamás Horváth says, although he does contend that both union representatives and business owners would want codes updated. “I am sure that if I would like to see a new labor code, I have a feeling that most union leaders have the same opinion. ... Maybe the reasons are not the same, but the frequently modified labor code is not good for the unions and not good for the employers,” he explains.

One benefit to unions is that during the economic crisis, union representatives and employers could meet to reach an agreement about modified work hours and payment. “But companies that were not unionized had to sit together with every employee to modify personal working contracts, and that’s terrible,” he adds.

However, one downside to local union laws is that they are not always consistent with European legislation. A multinational company has to start its negotiations with a work council at the European level, but would have to renegotiate the same topics with Hungarian unions, which makes things very tricky, Tamás Horváth says. Thus, Hungarian union codes should be consistent with European laws, he adds.



Another union issue arises when companies sell off a part of their business. In some circumstances, the original union may still be responsible for the employees who split off and are working for the new company, until the collective bargaining agreement is reached for another year. “It would be good if our union only would have rights in connection to their own company’s rights, not from the outside,” Tamás Horváth says.

FUTURE OPTIONS

ALONG WITH CRITICISMS of the current code, human-resources managers have many suggestions on how to improve it. “Our recommendation would be to focus on modifying regulations that provide even more flexibility to cope with uncertain market situations, as well as practical assistance to the employees, and also give companies an opportunity to balance their labor needs within a determined period,” says Adrienn Fehér, human-resources manager of Delphi Hungary.

He also wants more consistency in the regulations. “The ‘room for interpretation’ that still exists within some of the current regulations serves the needs of neither employees nor companies, because their application lacks a key aspect of sound regulation: predictability,” Fehér adds.

Looking to other countries as examples may help Hungary to improve its labor code. According to Fehér, the German labor code has strengths that allow employers have much greater flexibility in changing economic situations, but also protects employees. “For example, in case of decreased demand for goods and the associated decrease in required working time, short-term government support is provided to the employees that also has a benefit to the employer,” Fehér adds. Soma Horváth says the Dutch labor code is also transparent and easy to use.

But regardless what models Hungary uses, party politics should keep out of it, Soma Horváth emphasizes: “Even if it seems impossible in Hungary, I know that’s the way it should be done.” ★

Valuable compromises

CREATING MORE JOBS IS ESSENTIAL

“Yes, we want to join this debate, and we do agree that the labor code has to be changed, as the current one was written for other times and other economic circumstances. But the question is, of course, what changes we are exactly talking about,” says Péter Pataky, president of the National Federation of Hungarian Trade Unions (MSZOSZ).

BY HENK HIRS

★ In focus

8

Business
Hungary

AND EVEN THOUGH Pataky lists numerous objections to certain proposals from employers, his basic approach is a positive one. “I’m a born optimist,” he says. “We have had the National Interest Reconciliation Council [OÉT] now for 21 years, and though there are always very intense debates and disagreements, we have also reached valuable compromises.”

REPRESENTATION

IN PATAKY’S VIEW, one thing that certainly has to change is the way representation of employees by trade unions in major national and international companies has been formulated. With respect to collective agreements, for example, the old labor code still defines a company as one single entity, with one building, one location, and one owner, while today’s reality has become an entirely different one with national and international corporations having multiple owners, locations, subsidiaries, etc., Pataky says. So in Hungary, employees can officially only negotiate about a collective agreement with their direct employer (the subsidiary), even though the real decisions are made at an entirely different level. Stranger still, he adds, nowadays trade unions have the right to represent the interests of employees in national subsidiaries of international companies at the European level, but that same right doesn’t exist at the national level when it concerns several subsidiaries of a Hungarian company.

FLEXIBILITY

A MORE CONTENTIOUS ISSUE as far as trade unions are concerned is flexibility of the labor force, Pataky says. “For example, employers are arguing that labor agreements that were atypical until now, such as temporary and part-time contracts, contracts with flexible working hours, etc., will become the norm in a service-oriented economy, and they want to change the rules to allow for that. But though we acknowledge that these flexible forms of labor will become more important, we think that the traditional form – a five-day and 40–48 hour working week with a permanent contract, etc. – will and should remain the basic norm.”



Atypical working patterns shouldn't become the norm.

There are many disadvantages to too much flexibility, at least from the employee's point of view, he says. Many employees depend on overtime to make a decent salary, for example, but obviously more flexible working hours means a decrease in the number of better-paid overtime hours. Pataky is also very guarded with respect to pleas to change workweek regulations, so as to allow for more working hours in peak times, compensating with less hours when there is less work to be done. "Such working times are a big strain to the life pattern of an employee, to his or her family life and relationship with children. It can be very unhealthy and also detrimental to someone's productivity," he says.

Neither does he like the opt-out regulation which is currently functioning in Britain and which the EU Commission would like to see introduced EU-wide. This opt-out allows companies to not apply the 48-hour workweek limit if individual workers voluntarily agree to this, but we all know that it can be very hard for individual workers to resist pressure from an employer, Pataky says. "These things should not be based on individual agreements, but collective contracts."

Another of his concerns is that flexibility ideas, that are in themselves acceptable and good solutions for certain legitimate needs, are being misused. "Sadly, we know that Hungarian employers can be very creative in that respect," he says. As an example, he cites the regulations allowing for temporary labor contracts, which has resulted in some employers hiring people on a temporary basis over and over again instead of signing a permanent labor contract – in some cases even through their own temporary employment agencies are established especially for the purpose. Another of his worries is that it is much harder to represent the interests of employees if they are on extremely flexible labor contracts. Although he also freely admits that the opposite – employees wanting to work more overtime than the trade union wants to allow, because they can make more income that way – also happens.

NEW JOBS

ALL IN ALL, he says, we are willing to talk more flexibility in certain sectors of the economy and segments of the labor market and special arrangements for special situations, but it shouldn't become the norm everywhere and always. At the same time, he emphasizes, flexibility really has to lead to new jobs. "Hungary has an extremely low labor participation rate, almost the lowest in Europe. But the situation now is that, even though in the past decade flexibility of labor has already increased considerably, this hasn't resulted in more workplaces. We cannot agree to a development where more flexibility from the side of labor only leads to existing jobs being replaced by more flexible ones, and those people who already have jobs working more hours, while unemployed stay unemployed," Pataky says.

In the end, we also have to be clear on what sort of society we want, he adds. "It is often said that Europe has to become more competitive and that overly protected labor is one of the major problems here. But do we want labor conditions here to become more like those in Asia or Central America – including child labor etc. – or should it be the other way around? This is a global problem, but in my opinion, Europe can only be competitive if it offers quality, also in its labor regulations. It is telling, I think, that Finland is not only one of the most competitive economies in the world, but at the same time has a society where it is very good to live." ★

FLEXICURITY

Flexicurity is a welfare-state model with a proactive labor market policy. The term was first coined by the social democrat Prime Minister of Denmark, Poul Rasmussen, in the 1990s, based upon the social model functioning in Denmark, but also apparent in the Scandinavian countries and the Netherlands. The term refers to the combination of both labor-market flexibility in a dynamic economy as well as security for workers. It is seen as an integrated strategy, designed and implemented across four policy components: 1) flexible and reliable contractual arrangements, 2) comprehensive lifelong learning strategies, 3) effective active labor market policies and 4) modern social security systems providing adequate income support during transitions (in between jobs).

Fundamental to a successful flexicurity approach is a serious and ongoing dialogue between policy makers and social partners to identify which combinations of choices and trade-offs can and should be made to ensure a balance between labor market flexibility and job security. Flexicurity has been adopted as a leitmotif of the European employment strategy and the revised "Lisbon Strategy for Growth and Jobs". The relevance of flexicurity to tackle modern labor market challenges has also been recognized by the representatives of social partners at European level, the European Trade Union Confederation, and BusinessEurope.



EU MORE FLEXIBILITY, BUT ALSO MORE SECURITY FOR LABOR

mainstream

“Whether one agrees with it or not, the fact is that there is a growing tendency in the EU to interfere directly into social regulations, just as it is the case with environmental issues, and lately also with financial rules,” says Stefan Corbanie, senior office partner in the Brussels office of British-based law firm Eversheds. BY HENK HIRS

THERE IS NO DOUBT that the EU, while arguing for more flexibility in labor issues, at the same time sees the interest of employees as a major concern, putting certain constraints on businesses. Such is the mainstream of European development, and Hungary devising a new and modernized labor code fits very well into this trend, Corbanie says.

STRIDES AHEAD

ESPECIALLY UNDER the French presidency in the second half of 2008, the EU has – after years of quiet legislation – made some major strides ahead by producing several pieces of chief regulation in the social/labor sphere, Corbanie explains. The old rules on workers’ representation have become much stricter, and big international corporations are now faced with a tighter framework on how to deal with European Works Councils, meaning employees are better represented at an international level, and companies are obliged to inform and consult unions more than they had to earlier.

Also, EU member states followed by the EU Council reached an agreement on a compromise to amend the EU Working Times Directive. Involved are three major issues: the opt-out clause

(permitting member states not to apply the 48-hour workweek limit if individual workers voluntarily agree to this), the introduction of a four-month instead of two-month reference period for calculating average working time, and the treatment of on-call time (which, according to several EU court decisions, has to be considered and paid for as working time). In December 2008, the European Parliament, mainly because of objections to the opt-out clause, rejected the compromise on the amendment.

But the fact that there is an agreement after years of deadlock is progress in itself, and it is very well possible that the new European Parliament, elected in June 2009, will soon adopt the amendment, with or without some revisions. And all this new EU legislation is also applicable in Great Britain and Ireland, countries which always fiercely defended their Anglo-Saxon model and criticized the powers of the EC and new social legislation from Brussels.

Add to this the flexicurity [flexibility with security] agenda of the commission, says Corbanie, and it is clear that the focus at the EU level is to allow for more flexibility and a rise in atypical forms of labor contract in order to boost competitiveness of the European economy, while also taking into account the interests of workers. Obviously, he adds, abuses need to be excluded, job creation

and a higher labor participation rate are important, and flexibility might be applied selectively. “I could imagine, for example, that you allow much more flexibility for employees above a certain annual income, while the big mass of lower-paid workers remains much more protected,” he says.

Corbanie also sees a growing tendency at the EU level to tackle discrimination in the workplace, be it discrimination because of gender, ability, age, or race. First, you saw a considerable growth in the number of court cases in the US of people claiming their dismissal is linked to discrimination, he says. This is now also on the rise in the UK and Ireland, and he thinks it will spread to mainland Europe, arguing that these type of issues should therefore also be part of a new labor code. ★



Incoherent code

JUDICIAL RULINGS CLOUDED BY “ILLOGICAL” LAW

After undergoing more than 50 amendments since its creation in 1992, Hungary has been left with a labor code full of illogical and incoherent rules, says György Kiss, a University of Pécs professor in the labor-law department. Because of these discrepancies, Hungary needs a new code that is flexible and assures the competitiveness of employers and the security of employees, he adds.

BY MARISA BEAHM

UNDER THE CURRENT law, employees and workers are never officially defined – an issue at the forefront of the labor law’s interpretive challenges, says Kiss. “The Hungarian labor code is applicable only to employees, but we don’t have a legal definition of employee and no definition of the self-employed,” he describes. This gray area causes immense difficulties since there are more than one million self-employed Hungarians who hold contractual positions within companies, but are not guaranteed the rights outlined in the labor code, he adds.

Kiss acknowledges that employers may be driven to hire contractual workers to avoid “very high” taxes and social insurance pay, taxes which make it “impossible to be competitive” for Hungarian businesses. However, this also means a considerable group of people are working without social protection and aren’t entitled to benefits like severance pay or maternity leave. Thus, these contractual employees are economically dependent on employers, yet contractually independent, which “is a great contradiction, anomalism, and tension,” Kiss says. “This arrangement of different employment has an effect on social insurance law and tax law, but first and foremost, it makes the labor law inflexible.”

Another troubling aspect of the labor code is that it contains a conceptual mistake in Section 13, Kiss says. This portion states that collective agreements between parties may depart from set provisions if “such deviation provides more favorable terms for the employee.” As a result of this employee-centered wording the “employers have a feeling that Hungarian labor code only protects employees. For this reason, it would be very important to clarify the definition [of employees], without the possibility to deviate,” Kiss adds. Also, this section has

caused disagreements, because it is not clear what the application and meaning of “favorable conditions for employees” is, he adds.

FIRST STEP

WHEN IT COMES to updating the labor code, Kiss, who is presenting at the AmCham labor conference in November, says this meeting is the first step towards developing a new version. However, getting to the point of revision is going to take a great deal of compromise from all stakeholders and will not be possible without the National Council for the Reconciliation of Interests, which is a tripartite body with representatives from government, unions, and employer associations, according to Kiss. Also, there needs to be professional input on the code, which has been lacking in other revisions, he adds.

Kiss says that labor law needs to be placed within private law. In addition to defining an employee, he says a fair solution would be to transfer the majority of labor rules to a collective agreement. “The regulation of this problem doesn’t belong to the labor code,” he describes. “It belongs to an agreement of unions and employers. It is very dangerous to have this regulated by the state.” ★

The current law is inflexible.



The ‘Buda feel’

PEST SUBURBS OFFER GREATER VALUE FOR MONEY

“Why do people in Hungary prefer Mercedes to Lexus when everyone knows that Lexus is a better car?” That’s the question raised by Zoltán Zelei from real estate developer Elephant Holding to explain the Hungarian mindset when it comes to buying property in Buda or Pest. As the company’s sales director, Zelei contends that when it comes to the issue of which parts of the Budapest suburbs it is better to purchase property in, for Hungarians buying in Buda it is all about prestige.

BY DREW LEIFHEIT

BUT IS LIVING IN BUDA suburban areas actually better than living in the suburbs of Pest? Is the air quality really better? How much of a better value does one get for their money when buying in Pest? To attempt to answer these and other questions surrounding property purchases in “Buda versus Pest,” Elephant Holding has compiled a variety of data and statistics to make a compelling case for Pest. “The same kind of flat with similar attributes that costs about Ft 70 million in Buda would be about Ft 35 million in Pest. So why pay twice as much?” Zelei asks.

SIMILAR CONDITIONS

ONE PART OF THE ANSWER, of course, is that the price of land in Buda is much higher. But Zelei explains that perceptions of Buda are that it is calm and quiet and has the feel of the Hungarian countryside – something which he asserts can also be found in parts of Pest. Or, take air quality. Showing an air quality graph of the Hungarian capital, Zelei contends that huge differences in air quality between suburban Buda and Pest are a fallacy; only the outer zones of Budapest truly have much better air.

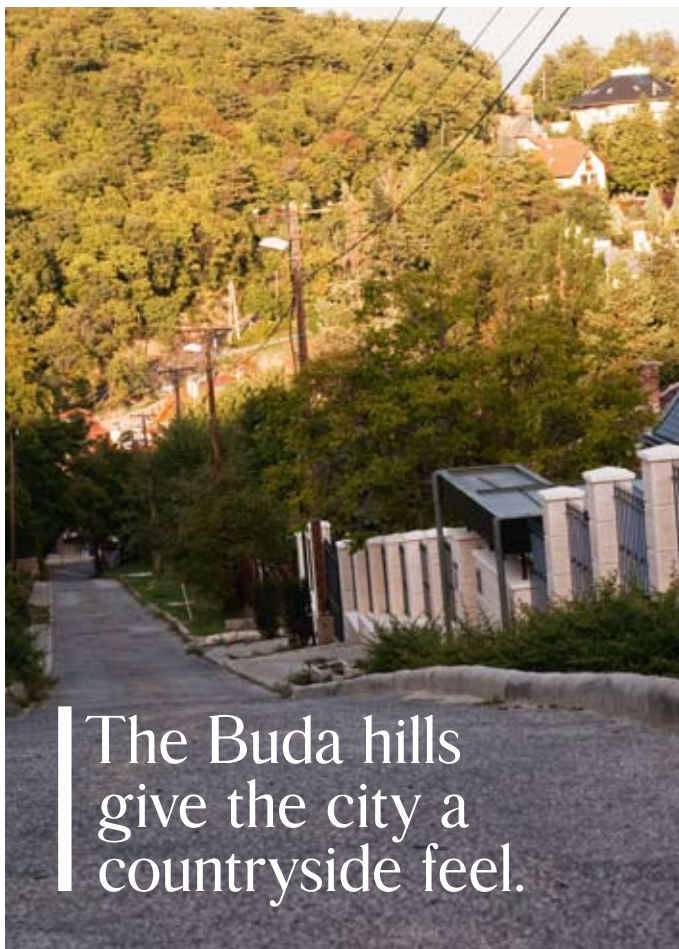
“The inner city, including both Buda and Pest, gets very polluted,” he says, “but the suburban areas offer much cleaner air, and from that point of view, it makes no difference whether you live in Buda or Pest.” Experts queried by Elephant say that pollution around main roads in Buda can even be just as high as in Pest, which has received some relief from smog following the opening of the Mo ring road. Airstreams off of the Danube also contribute to better air for northern suburbs in Pest.

Elephant’s survey also considered things like the number of schools per pupil, which looks similar for Buda and Pest, and crime rates. District II in Buda has a very high rate of incidence, while northern Pest could be considered surprisingly safe. Still, Elephant’s survey calculates that on average, Buda would cost about 30% more than Pest, where an estimated 10–12% more new apartments are available than in Buda.

According to Zelei, the best areas of Pest are districts XV, XVI and XVIII. They are the Pest suburbs where there are houses with gardens so they have a lot of the ‘Buda feel’. “In district XVI there is an area called Malomdomb which has been dubbed the ‘Rozsadomb of Pest,’” he explains.

CITY HILLS

BUT IF ALL ATTRIBUTES are the same, why would one still prefer to buy in Buda? The primary factor for buying in Buda, he says, is a combination of prestige and doing what is the custom: “Traditionally, they say that one should work in Pest and live in Buda.” According to Elephant Holding’s survey, those Hungarians looking to buy still feel that the most desirable areas are still in Buda – districts II and XII – while more recently districts III and XI have also grown more popular.



The Buda hills give the city a countryside feel.

Independent real estate agent Éva Bognár also claims that people prefer the inner districts of Buda because of the hills, which do have a countryside feel, “but you still live in the city and quite near the center – that is what we call the ‘Buda feel’, and that is what you pay for. It is actually something you do not get in very many European cities.” Also, most people like to live in a nice area not far from their place of work. “If your office is in downtown Pest, your natural choice would be district II in Buda. It is undeniably beautiful to start with, it is hilly so it gives you gorgeous views, and it is a few minutes away from work either by public transport or by car,” she says.

Bognár says that most buyers who come from the countryside normally go for Pest. “They do not have these emotional feelings for Buda, and they generally want something quite central. Often, they do not seem to mind the noise and airpollution that much, so they would settle for an apartment on the körút, for instance,” she says. “I had a client like that, but after enjoying living in the city center for a while, she realized that one park was not enough for her young child to play in, and they moved to a green belt in Buda.”

Meanwhile, foreign buyers generally purchase a property as an investment. “They usually want to let it, so they would choose something near the university or a big office area, which normally means downtown Pest,” says Bognár. “It is only those foreigners who have been living here for quite a while that would get infected by the ‘Buda-feel’ bug,” she says.

PROSPECTS

WITH THE CRISIS, though, foreign buyers and investors have almost entirely disappeared, and Bognár sounds less optimistic when she says that they might be back in three or four years’ time. “Next year will be even worse than this one,” she predicts, “and by the time the real estate market crisis is over, we will not be exactly where we stopped. So, it will definitely take more than two years for the market to pick up,” she says.



Zelei is more optimistic. “As far as the economic crisis is concerned, there is not much difference in Hungary, as the housing economy was already weak when the crisis started so that its effect was not really significant. And in the construction sector the crisis is only temporary. The situation will be much better within one-and-a-half to two years, globally.”

According to Elephant’s report, Budapest is also one of the best cities in the region for buying property in terms of price-value ratio, with sales prices of Ft 250,000/sqm for secondhand apartments and Ft 350,000/sqm for newly developed ones. “In neighboring countries like Ukraine, Slovenia, and Croatia, you are more likely to pay somewhere in the region of Ft 700,000/sqm, and even though the price of certain types of residential property in Hungary might be falling in the years to come, I am convinced that we will see an overall price increase within the next five years,” Zelei says.

As for the introduction of a property tax in Hungary, Zelei does not think it will take effect anytime soon. “I personally believe that property tax is inevitable, necessary, and actually a good idea. But according to experts, it would take five years to implement, so I believe it will take only full effect within ten years’ time,” he says. ★



Follow Portugal's example

BIOFUELS AND GEOTHERMAL COULD HAVE A GREAT FUTURE

“Hungarians could be more positive about the possibilities of renewable energy, and much more could be done with the options the country has,” says Steven Moore, who is involved in business development for Ethanol Europe, an Irish company which plans to build a large biofuels plant in Dunaföldvár. Moore, who spent several years in Portugal, sees that country as a good example for the possibilities Hungary also has.

BY RUNA HELLINGA

MOOORE SEES A LOT OF SIMILARITIES between Hungary and Portugal. The populations are about the same size, both countries have few traditional energy resources, and they are both highly dependent on imports. There are historical and political similarities too, Moore adds, as both countries went through decades of dictatorship: communism in Hungary's case, the fascist Salazar regime in Portugal's case. Both countries also struggle with political discord, in which both sides of the political spectrum never seem to agree on anything.

NATIONAL CONSENSUS

BUT SOME TEN YEARS AGO, the country's energy dependency inspired Portuguese political parties to set aside their differences, and they forged a national consensus about the need of a national renewable energy program, agreeing that renewable energy was the only way for Portugal to go. That was a remarkable step at a time when most other European countries still clung to traditional energy sources. Being a coastal country with lots of sunshine, the obvious routes to take for Portugal were solar power, wind power, and wave power. The success is remarkable. In 2020, no less than 31% of Portugal's energy demands are expected to be covered by

renewable sources. At the same time, energy-related industries in the northern part of the country, such as wind-turbine producers, provide a lot of new employment for people who lost their jobs in Portugal's suffering textile industry. Though a small country, Portugal punches above its weight when it comes to playing a leading role in the emerging renewable economy.

Moore stresses that, of course, every country has to find its own solutions to solve its energy problems, all role players need to be involved, and there is no silver bullet: “Countries will always need a combination of renewable and traditional energy sources, and the introduction of renewable energy requires a very flexible energy supply system, for instance through the development of a smart electrical grid that can handle many different suppliers. So you have to include everybody: political parties, large companies, and small producers. There is more common ground for cooperation between the traditional and emerging energy sector than many participants realize.” As far as Hungary is concerned, wind and solar power can contribute to Hungary's energy supply to some extent, Moore thinks, but he also sees other interesting options. Sitting on top of one of the world's largest underground hot water reserves, extensive use of geothermal energy would be a natural solution for Hungary, he says, while the massive production of biomass and biofuels is another big opportunity.



ETHANOL'S BIOFUELS FACILITY

Ethanol Europe, a private investment company, chose Dunaföldvár as the location for its first Central European biofuels facility because of the favorable situation of the Hungarian agricultural market combined with the presence of the Danube River. Construction of the plant is planned to start in April 2010. It will use American biofuels technology, and Ethanol Europe expects the facility to produce for the Hungarian market as well as for exports to the rest of Europe. Leftovers from the distillation process will be used for animal protein feed. “We already have interest from large animal feed companies for this product,” he says.

AGRICULTURAL SURPLUS

AT PRESENT, THERE ARE a few biomass and biofuels projects in Hungary, but these are insignificant compared to the possibilities the country offers, Moore says. As one of Europe's largest grain and corn producers, Hungary has a significant yearly surplus. Even in a bad year, the country produces more cereals than it uses, and because Hungary is a landlocked country, it is hard and more expensive to sell such surplus abroad, so farmers generally end up with low prices. "Agricultural conditions in Hungary remind me of the Midwest [with excellent soil and growing conditions], although production methods are very different," Moore says. "And like in the Midwest, the quality of Hungarian corn is excellent and also perfect for biofuels production." This could also provide farmers with a stable source of income, and thus solve not just part of Hungary's energy problem, but part of its agricultural problems, too, he adds.

For awhile, biofuels were presented internationally as a kind of miracle solution to the world's energy problems in the transport sector, but enthusiasm waned considerably when it was reported that the production of biofuels can cause rising food prices (a problem that was said to have occurred in Mexico) and can be the indirect cause for the loss of rain forest (Brazil). But Moore disagrees strongly. "This is not the case and has been disproved in many instances. Biofuels are not what have caused prices to go up, but rather petroleum prices and the margins of food companies. And anyway, those worries don't apply here because of Hungary's significant grain and corn surplus. Moreover, Hungarian corn production could get a considerable boost if farmers would invest in irrigation and other methods to boost a more efficient production. Because of the surplus and low prices, farmers don't see the economic rationale of such investments, but if they know there is a market for their corn, I'm sure they will." ★

HOT WATER

Geothermal energy has already been in use in Hungary for a long time. There are some 100 certified thermal wells in the country, which are producing an estimated 2,500 cubic kilometers of hot water for the heating of agricultural greenhouses, public and private buildings, and numerous swimming pools and thermal baths. But much more is possible. With Italy and Iceland, Hungary holds the greatest potential for geothermal energy in Europe, all experts say, but developments are mostly constrained by a lack of technology. Energy companies PannEnergy and MOL are each conducting geothermal explorations in Hungary and developing plans to set up geothermal power plants.



SOLAR POWER

With 1,950–2,200 hours of sunshine a year, Hungary has a considerable capacity for solar energy, but solar power is still very much underdeveloped. There are some projects, mainly using solar power to heat water, but overall developments of solar energy are hindered by the lack of government subsidies to get things started. However, according to the government's Energy Efficiency Action Plan, financial support for solar technology will increase, with solar systems to be installed on 20,000 rooftops countrywide by 2010.



Go West

HUNGARIAN
CONSULATE
WORKS TO
DEVELOP TIES

“We have a lot of difficulties,” says Balázs Bokor, who heads the Hungarian Consulate in Los Angeles, “but we shouldn’t sit around waiting for things to happen. The economic crisis is pushing us to find more ways of cooperation. The US and Hungary have nice relations, and it’s important that we work together much more in a detailed way. I don’t feel we do our utmost; we need to get together.”

BY DREW LEIFHEIT

BOKOR IS BUSY spreading the good word about Hungary on the American West Coast. Based out of California, the consul general must oversee activities in 19 states. “It’s a kind of marketing. We have to sell the country,” he says. Being far from the Hungarian Embassy in Washington “is a dilemma for diplomatic representation,” Bokor adds. “Hungary is a small country, so we shouldn’t try to fund everything. But if we look at relations with the US, not with just a specific state, there is a decisive part coming from the West Coast. Of course, economics is the decisive factor,” he says, “but you must act on universal issues, putting together Hungarian and American interests, like cooperation between universities. We support them and urge them towards participation in joint projects.”

The LA mission has a special diplomat at Hungary’s investment agency ITD Hungary to develop business on the West Coast of the US. “There’s not enough interest in the West Coast,” Bokor remarks. “California is a harbor for many of the world’s major economic players, but Asia is much more interested in the region than Europe is. It goes the other way, too: California in general is not interested in investing in Europe. There are numerous possibilities that we’re not using, that AmCham can use and

reinforce,” he says. “We can help members know what to do and whom to address in their business inquiries, if someone is working in the same line, etc.” While the number of American investors on the West Coast looking to do business in Hungary is not huge, the number of inquiries and requests is increasing, according to Bokor. American business is looking for different types of markets, he says. “Our workforce in Hungary is not as cheap, but it is comparably cheap and highly skilled – this can be utilized.”

Bokor believes that Hungary should be promoted via many more road shows and have an increasing amount of information disseminated about its strengths. “We need to bomb them with information and show up whenever someone is interested in Hungary.” As examples of potential Hungary/West Coast cooperation, Bokor mentions Hungary’s airfield capacity at Pápa, which could host C-70 transport planes from Long Beach, Cali. In Washington state, meanwhile, there is an abundance of IT and biotech activity, while Hungary bears similar interests in biotech and solar energy technology.

Not to mention the expansion of cooperation between Los Angeles and Hungary in the film industry. “It’s something special in Hungary, our film industry. We have a nice tradition and many Hollywood studios were [started] by Hungarians, so we need to speak a lot about Hungary, which I’ve been doing at universities. Talking about our successes is essential.” And Hungary still has a lot to offer, Bokor says. “Incentives, cost reimbursements, etc. Our industry can be promising for Americans who are looking for distinct locations for shooting, and there are many more possibilities.” ★

“Hungary should be promoted via many more road shows.”



Figyelő TOP 200 Gala and Conference

Restarting Hungary – the ability of renewal

During the past decade Figyelő TOP 200 Gala has become the unrivalled business event of the year, where nearly 500 of the most prominent representatives of the Hungarian economic and business life come together in a single forum.

This year, similarly to the past ten years, at the Gala event on 16 October the TOP 200 awards are presented in seven categories.

The most profitable company, the most efficient company, the most innovative company of the year, the best Hungarian TOP 200 company, financial institute of the year will be awarded and the TOP 200 social responsibility award will be also handed over. Besides the traditional categories, a new award is introduced this year, an individual prize appreciating the most innovative person of the past ten years.

Nominees' list was compiled by the Figyelő editorial board and the winners are selected based on the votes of TOP 200 Gala invitees. The Gala -where Gundel is the traditional catering partner of Figyelő- is known as the main corporate event which closes the business year.

Preceding the Gala, on 15 October a large-scale conference titled „Restart Hungary” is organized in cooperation with Corvinus University, the topic of which is innovation and renewal.

The aim of the conference is to mobilize the economic elite of Hungary, to encourage brainstorming in order to find ways out of the current global economic downturn, particularly in the fields of alternative thinking, creativity and innovative renewal. The concept of innovation will be examined in a much broader sense than just technological innovation, seeing it as a renewal of society and attitudes, innovation in management and a creative answer to the present crisis. Participants will try to reveal and solve those problems that stand in the way of Hungary's advancement with the help of representatives of leading Hungarian companies, economic operators, the nobilities of public life, and our foreign guests of honour.

Keynote speakers include John Child, professor of Birmingham University, Wallace J. Hopp, Professor of Michigan University and innovative education guru Marcus Orlovsky, Founder/CEO of the London-based Bryanston Square Consulting.

During a discussion guided by Tibor Krecz, Editor-in-Chief of Figyelő, Hungarian top-managers –Gábor Bojár, Chairman of Graphisoft Zrt., Erik Bogsch, Chief Executive Officer of Richter Gedeon Plc., Sándor Csányi, Chairman and CEO of OTP Bank Plc., and István Pintér, Managing Director of Rába Automotive Plc - will share their views about how they can build into their own innovation strategies what has been presented at the conference, and how they interpret innovation in their own companies and sectors, in which areas they see the greatest possibilities of excelling and renewal.

The third pillar of the TOP 200 project is the Figyelő TOP 200 publication, which has twenty years tradition, summarizes economic data of the 200 most significant companies operating in Hungary. This year, besides the TOP 200 companies' list, the „Most Ambitious 200” list is published about leading mid-size companies. (x)



Revealing restoration

CASTLE PROJECT USES WEB-BASED FUND-RAISING

While driving through the Aggtelek National Park, look closely and you can spot blanched walls from a 13th-century castle on a hilltop, resembling a set of teeth. Just a few years ago, this historic site was shrouded by foliage, but thanks to the work of committed volunteers and pioneering web-based fund-raising, the Szádvár Castle is being revealed through restoration. BY MARISA BEAHM

EACH FALL AND SPRING since 2006, volunteers from Friends of Szádvár (Szádvár Baráti Kör) gather to work on the castle, which is north of Miskolc in Szögliget, near the Slovakian border. The long-term goal of their efforts is to make the castle a tourist draw, which could be the ticket to economic renewal of the poor county that it neighbors. The friends' aim isn't to rebuild the castle to its towering original state, but rather to maintain what remains after the castle exploded in 1686 (see box).

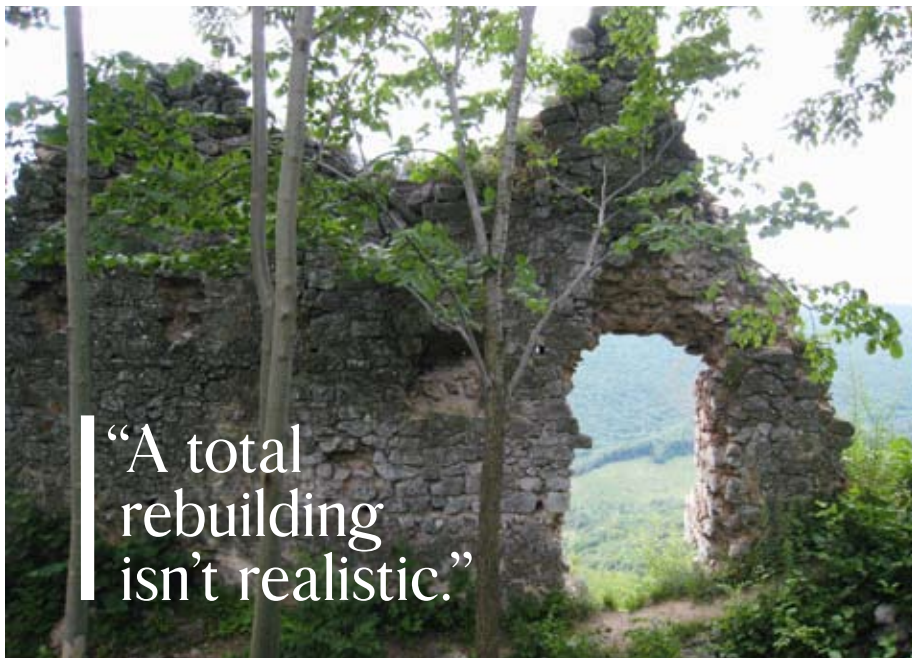
"A total rebuilding isn't realistic. It would cost \$10–20 million for a full restoration. At this point, the realistic goal is to conserve the existing walls," says Tamás Kárpáti, a Friends of Szádvár member who lives in California. The project's aims are to clean the castle grounds, including removing all the overgrown foliage, restore a tower as a viewpoint, and place signs, information boards,

and trash bins along the road that leads to the castle. The volunteer efforts are overseen by employees at the Miskolc museum and archeologists. Everyone involved knows it is a long process, but they stay committed. "If it takes a lifetime, it takes a lifetime," says Sebestyén Nyáry, Friends of Szádvár volunteer.

ONLINE FUND-RAISING

WHILE THERE ARE multiple castle restoration projects occurring in Hungary, this project is set apart because its fund-raising efforts are being streamlined through the Internet. "We've raised about \$2,000. It's the first time that any Hungarian organization used online fund-raising, especially in the US," Kárpáti says. Kárpáti is a product manager for eBay Giving Works, which facilitates donations to nonprofits through buying and selling on eBay.

To join this program, organizations must have nonprofit status in the US and charity status in the UK. So to be eligible, Friends of Szádvár teamed up with GlobalGiving, an online marketplace where individuals can donate to myriad locally run campaigns around the world. Donors can sell items on eBay to benefit the castle restoration project or give a cash donation on the Global Giving website. For donations, their target market is Hungarians living in the US or any castle aficionados worldwide. To donate, it's as simple as going to GlobalGiving or eBay, choosing a donation amount and providing credit card information. The donation sites also break down how a gift would be spent. For instance, \$25 provides food and lodging for one volunteer a day or \$120 would hire a carpenter to work on the restoration, according to the GlobalGiving website.



"A total rebuilding isn't realistic."

“The biggest assets in villages can be castles.”



assets in villages can be castles,” he says. Since Szádvár is set in the beautiful national park and can draw both Slovaks and Hungarians, it should easily attract people, and the friends are hoping for 30,000 annual visitors. In one day, tourists could visit the national park, spend the night in the city, and see the castle. “Tourism is one way to help locals break out of economic depression,”

While the project does receive governmental grants, using the Internet provides a wider fundraising base for the organization, which has even received donations from Australia and Vietnam. “The reach is definitely broader. We can target anyone with a PayPal account,” Kárpáti says. Ideally, they’d like to find 100 people worldwide to donate \$25 per year to keep the restoration sustainable. They have also received grant money from the Hungarian government and fund actions through the organization’s dues. “People like to help all kinds of causes that they believe in,” Kárpáti adds.

While web-based fund-raising, especially for political fund-raising, is very common in the US or UK, Kárpáti thinks one of the reasons Hungary is behind is because of a low Internet penetration, although it’s growing. “Ten years ago, even having e-mail was a big deal.” Also, Kárpáti sees a cultural difference, in that charitable action in Hungary is not on the same scale with that of the UK or US. “In Hungary, people expect help from the government in general, rather than from themselves.” American donors are also at an advantage, because they receive tax breaks for donations, which is why they’re targeting people in those countries, Kárpáti adds.

VOLUNTEERS

THE FRIENDS of Szádvár joined together in much the same way that they are being sustained: through the Internet. Initially, a group of castle enthusiasts logged on to web portal Index.hu to discuss their mutual passion. In 2006, rather than just letting the discussion continue, Kárpáti proposed a call to action. “Let’s not just talk about castles, but start doing something about it,” he recounts. Just a month or two later, 40 people showed up for the first castle-saving weekend. Now the volunteer group has grown and is made up from people of many walks of life. “Everyone is just giving; there’s no corruption,” Kárpáti says.

Members of Szádvár’s local communities have been very supportive of the castle efforts by hosting volunteers and giving their own time, including former miners who have shared methods for stone removal and other tasks, Nyáry says. The experience has been great for historically inclined volunteers, Kárpáti adds, because they can find items from the Middle Ages like bones and ceramics.

Like the other volunteers, Kárpáti hopes their efforts make the castle a tourist destination to help Szögliget. “The biggest

Kárpáti says. Szögliget is one of the poorest areas in Hungary, and has been suffering since its state-sponsored factories and mines closed. ★



SZÁDVÁR

While exact details of the castle are slight, the first written documentation of Szádvár dates back to 1268. The most famous residents of the castle were the Bebeks, who made many significant constructions in the 1500s, like the main structure of the castle and the ropeway elevator. In 1567, the castle suffered its roughest siege, when it was attacked by Chief Captain Lázár Schwendi. Zsófia Patócsy, wife of György Bebek, defended the castle for four days, but eventually surrendered. Afterwards, the castle’s owners fluctuated throughout the 17th century. In 1686, the Hapsburgs decided to blow up the castle in order to protect the area from anti-Hapsburg rebels in Hungary.

Today, only some of the castle walls still remain on its undisturbed one-hectare site. Unlike some other ancient castles which have been disturbed, this one may have been protected since it was regularly patrolled because of its proximity to the Slovakian border and location in the Aggtelek National Park, according to Friends of Szádvár volunteer Sebestyén Nyáry. He feels lucky that the castle has remained. “The last 50 years were not about respecting nationalism. It was about demolishing old castles, but this survived well at the border,” Nyáry says.

Why it feels different

This crisis is truly global, but it still hits different countries in different ways. It has become a popular pastime to rank countries by the fall they have experienced in GDP and then pass judgment accordingly on their 'economic model'. But one should ask, particularly for this crisis, whether the fall in GDP is the appropriate measure for a cross-country comparison of the political impact of the crisis.

BY DANIEL GROS

GDP REFERS to the amount of goods and services produced in a given economy, but in reality, such statistics have little real meaning for the wider public whose lives are affected much more by the amount they can spend and the stability of their jobs. Hence, public attitudes and confidence should be affected much more by what happens to consumption and employment.

These considerations apply in particular to Germany – especially in comparison to the US or other EU countries. The key to understanding why Germans, so far, are relatively relaxed about this crisis is the country's huge current account, which provides a cushion and allows consumption to remain constant. In Germany, GDP is now projected to fall during 2009 by about 5–6%, but consumption should remain roughly constant. The discrepancy between consumption and production is due to two factors: the current account deficit is projected to decline by about four percentage points of GDP, and investment should fall by about 2% of GDP (this means a fall in investment of about 15%). These two factors, the swing in the current account, and the fall in investment,

can thus account for the 6% difference between the growth rate of GDP (minus 6%) and consumption (0%).

In the US, the current account is swinging in the other direction. This implies that even if the US GDP declines by less (the latest forecast by the IMF predicts a decline of about 3–4%) than that in Germany, US consumption has to fall. The US current account is projected to improve by about two percentage points of GDP this year. This implies that domestic absorption in the US must fall by about 5% this year (3% decline in production plus a 2% decline in net-resource transfer from abroad), which is much more than in Germany. Part of this overall decline in domestic absorption should be reflected in a fall in investment. The IMF projects a fall in investment in the US worth about 3% of GDP, which implies that consumption will have to fall by an amount worth about 2% of GDP.

Since consumption accounts for roughly 70% of GDP, this translates into a fall of consumption of about 3% (2009 versus 2008). In the US, consumption had been increasing trend-wise by about 2.5% to 3% in recent years. US consumers will thus have to accept a swing in the growth rate of consumption of 5.5–6%! By contrast, in Germany, consumption had in any event been stagnant since about 2001. Thus, for the Germany consumer, the present crisis implies little change.

Many commentators have recently argued that Germany should rethink its export-led growth model because this model did not prevent a fall in its GDP, which was even larger than that experienced in the US or France, for example. However, is this model so bad if it allowed Germany to carry on consuming in the midst of the most severe recession in 70 years while consumers elsewhere have to tighten their belts considerably?

FIGURE 1. MISERY INDEX FOR THE EURO AREA, THE US AND THE UK

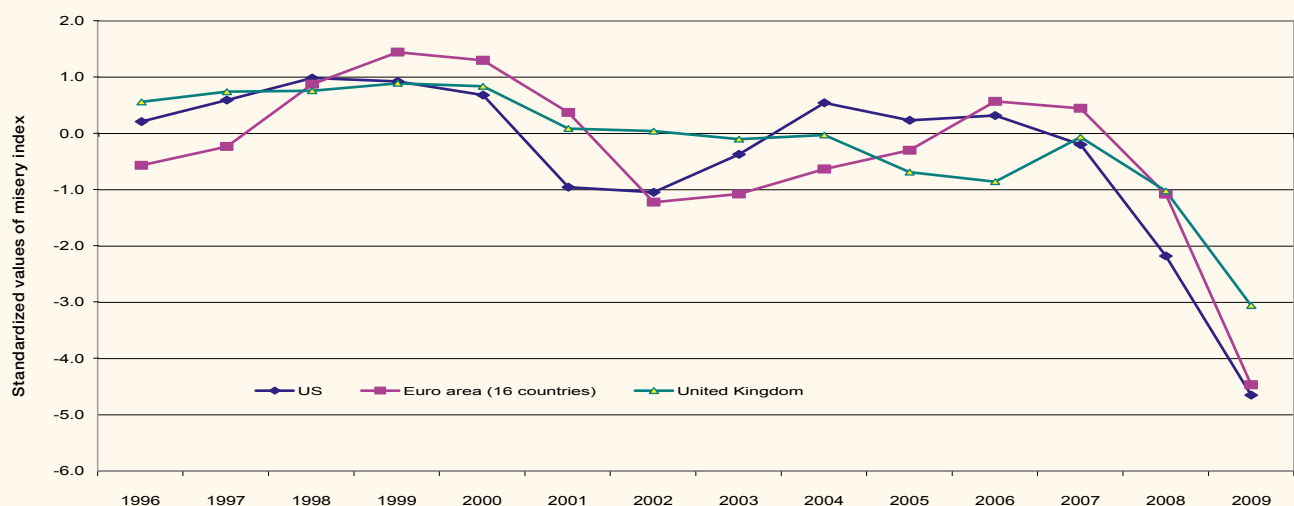
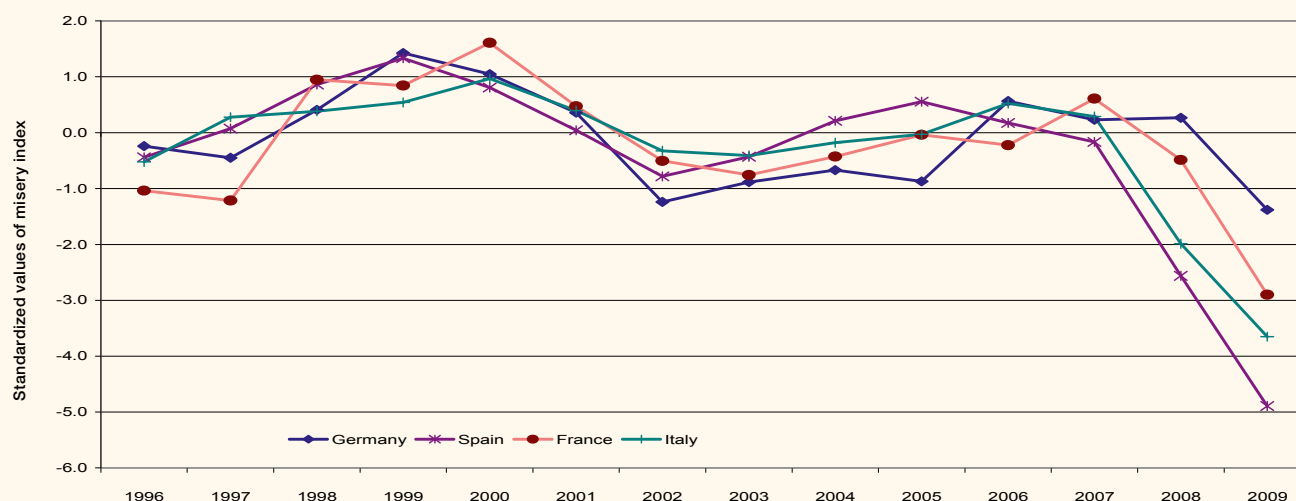


FIGURE 2. MISERY INDEX FOR MAJOR EURO AREA COUNTRIES



The wide difference in terms of the current account in the starting positions of Germany (plus 6% of GDP) and the US (minus 6% of GDP) implies that, in the case of Germany, stable consumption is sustainable in the longer run, even if GDP does not recover. By contrast, in the case of the US, the same longer-term sustainability considerations imply the opposite: consumption has to fall even if there is a recovery.

But why do German consumers continue to spend? The best answer is: “Why not?” German consumers did not rely on credit or on inflated housing prices to finance their expenditures. Consumers in the US (or Spain) are in a completely different position. As the value of their houses tumble and access to credit becomes more difficult, they have little choice but to spend less. Another reason why German consumption remains stable is the performance of its labor market: so far employment has not fallen noticeably.

This leads to the second indicator of whether the crisis really hurts: the unemployment rate. Here again, there are wide differences across countries. In Germany, unemployment has so far increased only marginally (by 0.5% from 7.2% in July 2008 to 7.7% in July 2009), compared to an increase of 3.6% over the same time period in the US (from 5.8% to 9.4%) or over 7% in Spain (from 11.4% to 18.5%). What is the reason for these differences? German enterprises have invested strongly in the skills of their labor force and therefore hold on to their skilled workers even if some of them are temporarily not needed. Generous provisions providing financing for temporary part-time work also help to stabilize employment. But other European countries have similar labor-market rules. The key difference here is that in Spain, most of the increase in employment over the last decade was in low-skilled workers in the construction and tourism industries. Since these sectors are contracting, Spanish enterprises see no reason to retain these workers, who do not possess the highly specialized skills necessary for globally competitive manufacturing. Moreover, these workers were usually hired on the flexible fringe of the Spanish labor market using temporary or other atypical contracts.

By putting the two policy-relevant variables, consumption and unemployment together in one ‘misery index’, one obtains a quite different picture from the one revealed by just looking at GDP. Figure 1 shows first a transatlantic comparison of a misery index,

which is simply the average of the growth rate of real consumption and the increase in the unemployment rate. In order to make these two series comparable, they have first been ‘standardized’ (in the usual way, that is by subtracting the mean and dividing by the standard deviation), so that a value of minus four means that the index has fallen four times the standard deviation below its average – which should be an extremely rare event.

Standardizing the variables in this way has the advantage that it takes into account the expectations of what constitutes a ‘normal’ or acceptable economic performance, which are usually based on the actual data over the last few years. The misery index based on standardized variables thus represents the element of surprise in the combination of negative growth and unemployment experienced by the economies under consideration. On this account, Europe does only slightly better than the US. The difference between the euro area and the US is small, because unemployment used to be much more stable in Europe. Although unemployment had increased much less in the euro area than in the US, this translates into a similar deterioration because with the lower variance in Europe such an event is equally exceptional.

But it is not useful to compare the US to the euro-area average since the latter comprises both bubble economies (e.g. Spain) and export-led ones, such as Germany. Therefore, stronger differences emerge within the euro area, as shown in Figure 2. A clear hierarchy emerges. Germany is clearly better off than all the others, with barely any deterioration in its index. Spain is clearly at the other extreme: its value of minus 5 means that the current combination of growth and unemployment is five times below the previous average. Italy and France are between these two extremes. It is apparent that Germany is the country least affected by the crisis in Europe. The German export-led model might not have prevented (possibly only temporarily) a sharp fall in GDP, but it seems to have provided a much more stable background for its consumers and workers than the housing-bubble-led economies of the US or, even worse, Spain. ★

Daniel Gros is Director of the Center for European Policy Studies (CEPS) in Brussels. This comment was first published on September 11 at the website of CEPS, www.ceps.eu.

Jockeying for positions

Following failure at the European elections, movements in two main directions can be observed within MSZP. Jockeying for positions and a silent war for power continues between major figures and different internal fractions and platforms. What is still at stake is the position to determine the MSZP's future path, and not lastly, the winning places on the lists at parliamentary elections.

BY KORNÉLIA MAGYAR, PROGRESSIVE INSTITUTE

AT THE SAME TIME, there is a position for which there is no keen competition at the moment: the prime minister's chair. One thing is sure: even if the 2010 parliamentary elections seem a foregone conclusion, proportions may still be changed by an electoral campaign. A highly decisive factor is whether MSZP only wants to survive the election or whether it really has something to tell about the world and Hungary. A candidate having a coherent vision and message may achieve a better result than what can currently be expected.

Another interesting matter is the attitude towards the crisis-managing government. Although members of the MSZP caucus appear to be fed up with newer and newer (and more and more unpopular) restrictive budgets, overall they are aware of the limitations with regards to budgeting. They are also aware that

rejecting the budget and bringing down the government would be in itself an irreparable loss of prestige for them. What may be interesting to some extent is the enforcement of larger or smaller deals or gestures, particularly in the matter of the net reduction of Ft 85 billion in state subsidies for local governments. Spectacular fights in this field may be expected, not only because local governments complain about their operations being wrecked, but mainly because more than 60% of the 189 members of the socialist faction have local political backgrounds.

Fidesz continues to enjoy the most comfortable situation possible. Its popularity remains around the desired "constituent two-thirds." But they now have to face a new dissonance that puts at risk their expected victory. This is the relative success of the crisis-managing government led by Gordon Bajnai, which will, among others, significantly ease the work of the Fidesz government, which will probably take office in 2010. Fidesz tries to handle this "problem" basically by two messages. First, instead of the results of economic stabilization, it tries to draw people's attention to the tools (i.e. the restrictive measures) suggesting that in reality, the government deceives the population and international financial institutions with macroeconomic indicators and passes on each and every forint saved to the pockets of their own party and supporters. This is related to the other strong message Viktor Orbán summarized himself in the following words: "The real prime minister of Hungary is still called Ferenc Gyurcsány." He is

trying to amalgamate success of the crisis-managing government with the unpopular "Gyurcsány era."

With respect to Fidesz's relation with extremist voters and Jobbik, a strategy seems to take shape. Fidesz – although still collaborating with far-right leading powers in a number of local governments – tends to distance itself more and more firmly and sharply from Jobbik as a political institution, but will not abandon their voters who are open to racism, homophobia, and strait-laced discipline. In doing so, Fidesz follows a kind of inverse Strauss recipe: while their ambitions are indeed aimed at having "only the wall to the right" by superseding rival moderate and extreme right powers on the political scene, they do not fix sharp and clear limits to distinguish between ideas, values, and concepts that are admissible in a democracy and those that are not. This is how it can happen that explicitly racist tirades of certain Fidesz members and representatives are only qualified a "local issue" instead of applying sanctions (exclusion or at least disassociation). ★



Successful military reform

The closing maneuver of the military exercise “Deployment Direction 2009” was held in the presence of the public dignitaries of the country in the middle of September. Speaking at the event, Prime Minister Gordon Bajnai described the reform of the defense forces as one of the major achievements of the government of the past few years, while President László Sólyom, speaking as the commander in chief, said that what he had seen could convince him that the Hungarian Defense Forces would be able to guarantee the need of the people for security. BY TAMÁS KERN, SZÁZADVÉG INSTITUTE

BOTH ARE RIGHT IN ESSENCE. However, we could nuance the statement of Bajnai by adding that the military reform is the only thing the government can be proud of in this term, and we can see several marked steps back in the case of other systems (such as education, health care, the economy). Knowing this, it is even more interesting to see that there have been fundamentally positive changes in defense and military policy since the second half of 2007.

The main reason for this is that decisions concerning the defense sector and the Hungarian Defense Forces have been made on a professional basis since autumn of 2006. The Ministry of Defense and the political staff leading the organization have been working without any faults while perceivably trying to focus on restoring the prestige of the military profession. The new leadership of the ministry launched some systematic work, so that a completely overhauled institutional system has been serving the security of the Republic of Hungary since the end of 2007, albeit with ever-shrinking support from the budget and a continually falling number of permitted staff in the defense forces.

The planned development of new capabilities has been going on during this time, and the professional servicing of missions in foreign theaters (Afghanistan, Kosovo) has become a routine for the defense forces by now. Looking at it analytically, we can say that the reform exercise of the defense forces and the delivery of undertakings to our allies – mainly NATO – are moving in the right direction. This is also confirmed by the fact that the shaping of defense policy is done in a concord of all five parties, despite all fierce domestic political quarrels and conflicts ensuing from the work of the minority government. And it is perhaps the only particular policy area that is free from any direct political party quarrels.

However, media sources say that Imre Szekeres will depart from leading the ministry by the end of this year. Not that

the prime minister is dissatisfied with his work – quite the contrary – but his departure is clearly motivated by party politics. MSZP must face its deepest crisis since the change of political regimes. No wonder, as the crisis management program of the minority government has caused additional erosion in the social support of the party. Also, internal tensions in the party that were artificially suppressed after the European parliamentary elections can still be perceived under the surface. On top of this all, the recent series of corruption scandals (e.g. BKV, the Budapest Transport Company) affect mainly the socialist party the most negatively.

Clearly there are ever-stronger signs of disturbance within the party. A successful and high-achieving minister could also show one way out for MSZP from a situation like this. But Szekeres is simply fighting for survival. In the background of his resignation, he most probably lacks confidence in his fellow party members, primarily the members of its board representing the younger generations. As the elections draw closer, the stakes are getting higher – in fact so high that even sacrificing a successful ministerial position does not represent a real loss. However, this involuntary behavior gives a good reflection on the disintegration of the party. ★



THE 2010 BUDGET

HUNGARY MUST KEEP its budget deficit down to make the country less vulnerable to movements on global debt markets, Prime Minister Gordon Bajnai said at a meeting of the Economic and Social Council in Parliament. Now developed economies with big deficits are expected to soak up liquidity after the crisis has passed, leaving less for developed, smaller economies, he noted.

Revenue of the general government is expected to bottom out only next year, which justifies the government's program to cut spending by more than Ft 1,000 billion in the two years combined, Bajnai said. Hungary is targeting a 3.8% of GDP general government deficit in 2010, well below the 7.3% average for EU-member states.

The government's 2010 budget bill, which was presented to Parliament on Sept. 11 by Finance Minister Péter Oszkó, targets Ft 448 billion in spending cuts compared to 2009. The bill reduces expenditures for public transportation by Ft 40 billion, for local councils by net Ft 85 billion, and for budget chapter support (including funding for ministries) by Ft 140 billion. It cuts spending on retail energy subsidies by Ft 55 billion, on home subsidies



by Ft 48 billion, and on pensions by Ft 80 billion. Some chapter support will be raised because of additional tasks the institutions in question have to fulfill, Oszkó said, such as the budgets of the Central Statistical Office (KSH), the offices of Parliament and of the president, and the budgets of the Ministry of Foreign Affairs, Ministry of Transport, and Fiscal Council. If the country follows a disciplined budget policy, Hungary could return to the growth path in 2010, Oszkó said. ★



CLUB ALIGA

ISRAELI-OWNED Pro-Mot Hungária plans to spend Ft 75 billion over ten–20 years to transform Club Aliga into one of Europe's most elegant retreats. The company bought Club Aliga – the Lake Balaton resort where the most prominent communist leaders had their villas – in a privatization in 2007. ★

INVESTMENT PLANS

DESPITE AN UNFAVORABLE economic environment and deteriorating conditions in financing, almost 60% of Hungarian companies are likely to make investments over the next year, the state-owned Hungarian Development Bank's (MFB) new indicator shows. MFB lead economist Péter Gál said financing and investment plans show that the economic crisis had already bottomed out. ★

ELCOTEQ: WE'LL BOUNCE BACK

FINNISH ELECTRONICS-MAKER Elcoteq laid off 700 workers at its plants in Pécs in September because of decreasing orders. Elcoteq currently provides jobs for 4,000 people at its base in Pécs. One-quarter are contracted laborers. The unit has cut capacity since January because of the worsening market situation. At the beginning of the year, it laid off 1,350 workers.

Elcoteq also did not extend the lease of its plant in Cserkút, and moved production to nearby Pécs. Still, Elcoteq has said that it will soon employ 7,000 workers again. "Founder of Elcoteq Antti Piippo and Chairman-CEO Jouni Hartikainen assured us that Elcoteq made a strategic decision when it set up its European production center in Pécs," said Socialist MP Endre Bókay after a meeting with management. ★



CODE OF CONDUCT FOR BANKS

A CODE OF CONDUCT that will affect the entire scope of their lending activities was signed by 13 Hungarian banks in September. The code will take effect on Dec. 1. Financial-market regulator PSZÁF will be entitled to impose a fine of up to Ft 2 billion on financial institutions breaching the code.

Acting president of the Hungarian Banking Association Mihály Patai said the code of conduct aims to strengthen confidence between the banking sector and its clients. It is expected to be extended to all institutions operating in the retail lending market in the future, PSZÁF head Ádám Farkas said. He added that the signing of the code was voluntary, and the code does not restrict competition between banks. Banks will not implement any unilateral amendments to their contracts until the code takes effect, he said. The code of conduct affects the information banks provide to borrowers, preparations to be made before loan contracts are signed, management of problem loans, and unilateral changes to contracts and bank fees.

In the wake of the signing, Hungarian Banking Association President Péter Felcsuti announced his resignation from the post over differences with other members. ★

IMF LOAN EXTENDED TILL OCTOBER 2010

THE INTERNATIONAL MONETARY FUND (IMF) has approved a request from Hungary to extend the deadline for claiming the remaining tranches of its SDR 10.5 billion standby arrangement until October 2010. The original deadline was March 2010. This happened after an IMF delegation completed a review before Hungary calls down the next tranche of the loan. The arrangement was extended by six months until October 5, 2010 to cover the election period and the transition to a new government, IMF delegation head James Morsink said in a statement. The loan was part of a €20 billion financial support package that also involved the EU and the World Bank. ★



25

Business
Hungary

ROMA INTEGRATION FOR SUSTAINABLE DEVELOPMENT

NEARLY 200 ROMA with university degrees will be admitted to work in public administration with their salaries to be initially paid by an EU project. Prime Minister Gordon Bajnai said that Hungary needed a much stronger Roma elite who can help advance Roma integration and that without Roma integration, there will be no sustainable development in Hungary. The state needs to set an example, which is why it is promoting the employment of Roma graduates, he added. Young Roma can apply for the posts from October. The government will spend Ft 100 million to prepare the graduates to take the civil service exam and cover incidental costs. In the first year, salaries will be paid from a budget of Ft one billion from European Union funding. The government will also begin eliminating 100 of some 500 Gypsy ghettos in the country, Bajnai said, and from January, local authorities will not be eligible for EU funds unless they have equal-opportunity plans. ★



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CEE IN REVIEW

CEE DEFICITS AND THE EURO ZONE

PUBLIC FINANCES in the Czech Republic, Hungary, and Poland will continue to worsen as a result of the economic downturn, Fitch Ratings said in a special report. “The marked deterioration in public finances in these countries could lead to negative rating actions if they fail to identify and implement credible, medium-term fiscal consolidation programs. In all three countries, politics and electoral cycles add to the risk of fiscal slippage,” said David Heslam, Director in Fitch’s sovereign team. Hungary’s 2010 budget deficit is forecast to be 3.8% of GDP, but the deficits of the Czech Republic and Poland are both forecast at 6.3% of GDP in 2010. According to investment bank J.P. Morgan, the recession in Central Europe, the consequential deterioration of public finances, and downward pressures on local currencies “have further reduced the CE-three’s chances of adopting the single European currency in the coming few years.” But the expected global cyclical recovery will provide a window of opportunity to Central European countries to adopt the euro in 2014–16. Within the CE-three, political and economic incentives to adopt the euro appear to be the highest in Hungary and the lowest in the Czech Republic, and Hungary could enter the euro zone a year ahead of Poland and the Czech Republic, J.P. Morgan concluded. *(MTI Econews)*. ★

BULGARIAN RAILWAYS DOWNSIZING

ONE OF TWO of Bulgaria’s state-owned railway companies, Bulgarian State Railways (BDZ), is contemplating axing 2,000 employees by the end of 2009 in order to balance its books. This news came just three days after Bulgaria’s other state-owned railway company, National Railway Infrastructure Company (NRIC), announced it would withhold 30% of its employees’ monthly wages by the end of 2009 in another drastic measure to keep itself afloat.

BDZ has accumulated a debt exceeding 22 million leva. According to reports from various Bulgarian media, a total of 1,300 workers are poised to be made redundant by BDZ. The company has already off-loaded more than 1,100 workers since the turn of 2009, most of those nearing retirement age. Similar “strategic moves” were employed by NRIC, which has accumulated a 50 million leva deficit and is implementing a temporary salary cut of 30% in effect from Sept. 1. Other measures that NRIC will implement include staff reductions and closure of some rail routes. *(Sofia Echo)* ★

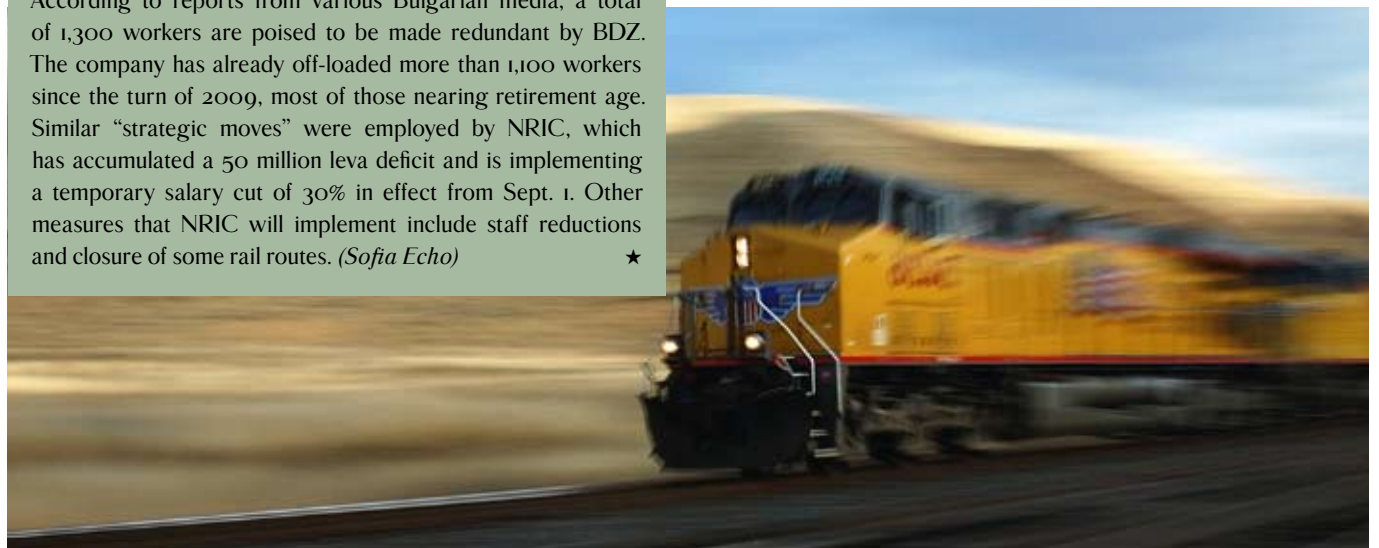


SLOVENIA-CROATIA BORDER DEAL

CROATIAN PRIME MINISTER Jadranka Kosor and her Slovenian counterpart Borut Pahor reached an agreement on how to proceed in the ongoing border dispute between the two countries, thus opening the doors to Croatia’s EU accession bid. After almost a year of frozen talks, Slovenia and Croatia overcame political hurdles on the border dispute in the Piran Bay area and agreed to reopen dialogue. “The Slovenian government will propose to parliament’s foreign policy and EU affairs committee that Slovenia withdraw its blocking of Croatia’s EU accession negotiations,” the two leaders said in a statement.

Croatia hopes to make up for lost time in the negotiation process, and asked that that current EU President Sweden will organize an accession conference and start final negotiations. Pahor said both countries are ready to find a solution by way of a bilateral agreement or under the EU umbrella.

“Prime Ministers Kosor and Pahor have shown European leadership in breaking a difficult deadlock,” Swedish Prime Minister Fredrik Reinfeldt said, adding that the agreement “underlines the strength of the European integration process and the virtue of dialogue. It will promote regional stability and serves as a model for the Western Balkans as a whole.” *(SE Times)* ★



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THE RETURN OF
REAL GYPSY MUSIC

A traditional Gypsy orchestra with violins and cymbals is probably the best known, if not the only known, element of Hungarian folk culture abroad. Sure, you have dancing girls in colorful folk dresses and men with big hats, broad moustaches, and cracking whips showing off their horse-riding skills. But nothing beats the smartly dressed musician with black hair and dark eyes playing one of those melancholic Hungarian tunes on his violin at your candlelit restaurant table. Alas, this romantic scene is slowly fading out of existence.

BY RUNA HELLINGA

MUSICIANS ARE PART of the elite of Hungarian Roma. Many families of musicians have been playing at parties, weddings, and in restaurants for generations, and 19th-century composer Franz Liszt (Liszt Ferenc) once called the traditional Gypsy orchestras “a vital part of our [Hungarian] culture.” Under communism, restaurants were state-owned and had separate budgets to employ Gypsy musicians to entertain their guests. But with the change of system, this state support fell away, and today most restaurants no longer have or want to spend the money to pay for these orchestras. At the same time, a new generation of Gypsy musicians turns away from the traditional songs and tunes, preferring to play authentic Roma music, jazz, or hip-hop.

“The traditional music of restaurant orchestras has little to do with real Gypsy music except for the fact that it is being played by Roma musicians. It is, in fact, a mixture of Hungarian folk

music with old songs that were once very popular internationally but are no longer so,” says Gusztáv Varga, founder of the Roma music group Kalyi Jag (Black Fire) that became world famous with a completely different sound. Varga – singer, guitar player, and composer – comes from an old dynasty of musicians. He grew up with Gypsy music, built his own first guitar, and, as a teenager in the 1970s started to develop a liking for the pop music of those days.

But then something happened that made him change course. “At home, we had a huge repertoire of original Roma music, handed down from generation to generation, and one day in some pub my father sang one of these songs in the Romani language. The pub owner feared my father might be singing something insulting about Hungarians and asked him to stop. I then decided to translate the lyrics for him, and the man was totally flabbergasted that Gypsy people had such beautiful songs of their own. That’s when I thought: I have to do something with that.”

In 1978 Varga started Kalyi Jag, a band that aimed to breathe new life into old Romani melodies, combining them with Varga’s own compositions and with musical motifs from the Balkans, Russia, and other regions where Roma are living. The group uses traditional instruments like the guitar, mandolin, and tamboura (a long-necked plucked lute), but also spoons and a water can, while the singers, as used to be the custom, mix their lyrics with very characteristic vocal sounds and cries. It



The international
breakthrough
came first.



“Music...from our hearts.”

resulted in a musical style that makes one think as much of India and the Middle East as it does of Central Europe.

“This was the time when Roma in Catalonia [Spain] developed flamenco jazz, and Roma musicians in Moldova also started a renewal movement,” says Varga. But traditional Hungarian Gypsy orchestras didn’t want anything to do with all this new stuff, and Kalyi Jag wasn’t able to get anything going back home. That

changed after Kalyi Jag’s international breakthrough, right after the release abroad of its first album, “Gypsy Folk Songs from Hungary”, in 1987. It sold like mad (eventually, 2 million copies were sold) and suddenly, restaurant orchestras in Budapest started getting more and more requests from foreign tourist to play “something like Kalyi Jag.” The requests became so frequent that the traditional musicians started turning to Varga, asking him to teach them how.

In the meantime Kalyi Jag has also become very popular in Hungary, and the group has a following in such young and successful bands like Mitsoura and Ando Drom. Other young Roma choose a career in jazz or pop music, like Varga once contemplated. Only few young Roma musicians nowadays aim to become a *primás*, the master violin player in a traditional restaurant orchestra, he says. “It’s not just that the musical taste of young people has changed completely, but instruments like violins and cymbals are expensive and the future prospects uncertain. But that doesn’t mean that those young people are not into music anymore. That doesn’t stop. Music is deep within our culture; it doesn’t come from our heads but from our hearts.” ★

OTHER KALYI JAG ACTIVITIES

The members of the group, many of whom have grown up in Roma families, are Gusztáv Varga (director, vocals, guitar), József Balogh (vocals, guitar, mandolin, tamboura, spoons), József Nagy (vocals, water can), Ágnes Künstler Balogh (vocals, dance), and Zsolt Farkas (vocals, guitar, dance). They are all collectors, composers, and arrangers of Roma music as well as performers.

To stimulate interest in Roma folk arts, Kalyi Jag initiated the Ethnic Folk Music Gala in 1990, and a year later the group founded the Kalyi Jag Roma Art Association. In 1993 Varga started the Kalyi Jag Roma Minority Technical School in Budapest, which helps to bring Roma into the mainstream educational system. The school admits children who have completed eight-year primary school. Most students are Roma, although according to Varga, there is a growing number of non-Roma pupils. The objective is to provide a two-year education to students aged 14–25 who have no vocational training or are not attending secondary schools of any kind. The school places special emphasis on identity and teaches students about Roma language and culture. Training courses for unemployed young Gypsies are also available in an effort to encourage them to become entrepreneurs, to obtain a basic degree in a foreign language, or learn to operate a computer. At present, the school has branches in Budapest as well as in Miskolc and Kalocsa.



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THOUGH THERE are dozens of lotteries, the “five lottery” – in which you have to try to guess five numbers out of a total of 90 – is still considered the real one. The mathematical chance of winning is 1:43,949,268. The record win so far was close to Ft 3 billion, and the average is Ft 1 billion. You need about Ft 200 million to be able to buy one of these dream homes in Pest.

V. HONVÉD UTCA 3

This is the celebrated Bedő House, off Szabadság tér, recently restored. There is a small private museum of Art Nouveau and a café downstairs. You can even follow the August 20 fireworks from the balconies. Strengths: elegance and quietness.

V. VÖRÖSMARTY TÉR 1

On this site used to be a theater, then an office block, then the “House of Musical Arts”, and now this block of shops, offices, and condominiums upstairs. The latter are split-level large spaces with balconies. Strengths: central location, garage.

V. KOSSUTH LAJOS TÉR 18

The only private residence on the riverfront between Parliament and Margaret Bridge, a Bauhaus gem. If you can, choose a home on the southwestern wing. Strengths: river view, good public transport.

SOMETHING NEW: THE TRENDIEST RECEPTION COUNTER EVER

During communist times, “Big is Beautiful” was the slogan, even for garages. The Spiral Garage, called that because cars had to use a spiral ramp to go on the first and second floor, was one of the biggest. It was made redundant around 2000 and torn down, and now architects Zoboki-Demeter designed a large office block which they called “Spirál Office Complex”. They decided to dispense with spiral forms, except for the red reception counter – the most original ever. (Pest XIII, Dózsa György út 128–131)



VI. VÁROSLIGETI FASOR

Almost any villa between Bajza utca and Dózsa György út. A very pretty villa estate, parallel with Andrassy út, but much quieter, built between 1900 and World War I. Strengths: gardens despite the central location, good public transport.

VI. NAGYMEZŐ UTCA 3

A very fancy red-brick building and the former headquarters of a German-language newspaper. Possibly on the top floor. Strengths: nice view, good inner spaces, proximity to theaters and the Music Academy.

VI. ANDRÁSSY ÚT 89

This is the “crescent” part, presently getting a facelift. It's where composer Zoltán Kodály lived most of his life. But how about the newly built loft space just above it? Strengths: the combination of old elegance and modern equipment, great public transport.

XIII. POZSONYI ÚT 49

A well-designed Bauhaus block in the heart of the busy and friendly quarter north of Margaret Bridge. The best apartment is no doubt the one on the top, redesigned by the celebrated architect Attila F. Kovács. Balconies to all directions and so big that his daughter learned to ride her bicycle there. And it really is on sale! Strengths: great river view, interior with Moroccan hints, specially designed baths. ★

SOMETHING OLD: THE SPIRE OF THERESA CHURCH

Theresa Town was given its name in honor of Queen Maria Theresa (rulinf from 1740-80). When the Theresa Parish church was designed, the small buildings around it were mainly built from wood and clay. So this church was meant to be more than a house of worship. Fire guards were marching on the balcony around the spire around the clock. They fixed their eyes on the ground and if they spotted a fire, rang the bell. Their colleagues then looked up and asked for directions. Seconds mattered, and there were no phones, of course. (Pest VI, corner of Nagymező/Király utca)



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DINING GUIDE

Budapest is not rife with exotic restaurants, and original Arab cuisine is, for some obscure reason, completely missing from the palette. The al Basha restaurant at Ferenc Liszt tér somewhat deterred me. Connoisseurs of the city know that the square offers no gastronomic pleasures of a sophisticated kind, and al Basha looks simple on the outside with its wobbling plastic tables: the same as on the neighboring terrace, only painted with black and gold motifs. Inside, there is a somber basement room and a corner with lounging cushions and a water pipe. It may well be atmospheric.

BY ERŐS PISTA

IT BEING AN ARABIAN RESTAURANT, we begin with a *tabbouleh*, a salad dish which is most suitable to test the authenticity of the place. The proportions of parsley and bulgur will tell whether it can be taken seriously. We are prepared for the worst, which is why it's such a surprise that what arrives is a huge portion of parsley salad with fresh flavors. The salad is scarcely dotted with tomatoes, as it should be, and has a hint of cumin – the fragrance of which is perfect, although the salad could perhaps do with some more lemon zest.

The spreads on the mixed plate of starters (*mezze*) have, without exception, a good flavor. One eggplant spread is livened up with *tahina* (sesame paste), the other with tomatoes and cumin. The *humus* (chickpea spread) is perfect. There is also *foul* (spread of broad beans), *labneh* (strained yogurt), and *fattoush* (a salad with toasted pita bread). The textures are nice and the spices excellent. Only the *mhara* – a fried Syrian pepper cream – is a disappointment as it is neither Syrian nor fried, and the oversalted pepper cream from a can is an upsetting hoax.

The main course menu contains at least ten meats, so it is not easy to choose. We select *kofta* (a kebab or grilled meat) and *kibbe* (a mix of ground meat, bulgur, and spices). The *kofta* is supposed to be spicy (*kash-kash*) and should contain Californian peppers, but we don't see much of them, unless we count the reappearing and sorry red tomato paste.

The accompanying chicken *frikeh* (an ancient dish with roasted green wheat) is exciting for the special cereal, but it is dumped down by the low-quality meat and the other half of the side, the curry rice. The *kibbe* is a specialty that we are so eager for that we may have expected too much. It does not materially differ from the kebab, the pita accompanying it is store-bought, and the vegetables are tired.

We taste the rice pudding, the pistachio *baklava* (sweet pastry), and the *mabrouma* (a syrupy dessert filled with pistachios). Theoretically, they are made by an Arabian pastry chef and they are not bad, but some better can be found in this genre, too.

Despite the average (though highly priced) main courses, we do not leave with a bad taste, especially because of the authentic *tabbouleh* and the kind Tunisian waiter, without whom there would have been no chance that we would return. Which I did a few days later, because of *tabbouleh*. But the salad was not the same, nor were the other dishes. Upon my query, the waiter confirmed that the chef was missing: off for the day, every Tuesday. So no visits to al Basha then.

The restaurant is an addition to the palette and, most times, the *tabbouleh* is authentic. A pity that the place doesn't dare to be more authentic and didn't choose a more relevant location. ★

Dining Guide examines the quality and level of ingredients, technologies and creativity of the kitchen, ambiance, presentation, service, and the relation between enjoyability and price level, all according to professional standards. Based on these criteria, the restaurant is rated an average on a ten-point scale (see below left).

AL BASHA

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Open: Mon-Sun 11am-2am

Happenings

OCTOBER/
NOVEMBER

“THE SMALLEST COMMON MULTIPLE” EXHIBIT

Until December 13

THIS SOLO EXHIBITION of leading local artist Szabolcs KissPál provides a mid-career retrospective of intriguing modern works that document their creator’s increasingly fervent political awareness. Encompassing a diverse array of his video segments, installations, and photographs, KissPál’s contemporary media pieces provoke thought through new interpretations of common perceptions; while examples of his earlier oeuvre focus on the artist’s studies of evolving aesthetic discourses, this exhibit presents more of his recent works examining societal discord, all together at the Ernst Museum (Pest VI, Nagymező u. 8); check out www.mucsarnok.hu to see more. ★



HALLOWEEN AT THE NATIONAL DANCE THEATER

October 30, 31

CREEPY CULTURAL entertainment is offered with a frighteningly good program for fans of modern movement artistry. This first-ever event thrills audiences with a performance of *Dracula* by the Honvéd Dance Theater on the first night, followed by *A Midsummer Night’s Dream* on the second evening, with presentations enhanced by hair-raising sideshows at the National Dance Theater (Buda I, Színház u. 1-3), beginning at 7pm on both nights; check out www.nemzetitanacszinhasz.hu to exhume details. ★



COCA-COLA WOMEN’S RUNNING GALA

October 18

IN THIS 14TH-ANNUAL sporting spectacular, celebrating feminine physical fitness with lighthearted races that highlight fun and camaraderie, women of all ages are welcomed to run either ten or three-and-a-half kilometers (or even walk a three-kilometer course) on routes winding past numerous riverside attractions. This roaring event is centered at the Margaret Island Open-air Theater (Margaret Island, under the Water Tower); visit www.budapestmarathon.com to learn more. ★

BUDAPEST AUTUMN FESTIVAL

October 9-18

INNOVATIVE CONTEMPORARY artists and performers from near and far arrive here for the annual Budapest Autumn Festival, presenting creative concerts, dance, films, exhibitions, and much more in varied venues throughout Hungary’s capital – call (+36 1) 486 3311 or visit www.bof.hu for complete information, or visit the central festival ticket office (Pest V, Szervita tér 5) on weekdays between 10am and 5pm. ★



Checks and balances

“THE CHALLENGE FOR THE BUSINESS community is to restore trust and confidence in capital markets, which is essential for a sustained recovery,” said Timothy Flynn, chairman and CEO of KPMG International – one of the big-four public accounting firms that provide audit, tax, and advisory services. Flynn was keynote speaker at the “Global Leaders on the AmCham Podium” luncheon on September 17 at the Budapest Marriott Hotel.

It was a lack of trust and confidence that caused markets to freeze up, Flynn said, and he quoted an international survey reporting that 77% of respondents don’t believe that businesspeople “do the right thing,” and that even politicians have a higher esteem with the public, though with some exceptions, like the Madoff case, nothing much illegal was done. There was a clear lack of checks and balances to prevent this crisis from happening, he said.

“It is not enough for businesspeople to adhere to legal requirements,” Flynn told, pointing out three mechanisms that protect bad decisions. First, people rationalize them (it’s just this once, it’s a special case). Secondly, people suppose implied permission (my bosses are not telling me to stop). Thirdly, people are afraid (it is not my job to stop this, if I don’t do this I might be sacked). “Therefore, we need a healthy balance between regulators, businesses, and investors. We need more corporate governance, more risk management, and more oversight,” Flynn argued.

Asked about self-criticism from the audit business with respect to the crisis, Flynn said, “we reformed extremely well



and fast” after the Enron case erupted. But clearly, he added, risk models were not good enough, and auditors also have to look critically at business models as a whole instead of only auditing the results of such models. “Still, we didn’t make the rules, we only applied them.” ★

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AmCham 20th Anniversary Reception

It is our honor and pleasure to cordially invite you to the Gala - Reception commemorating the **twentieth anniversary** of the American Chamber of Commerce in Hungary.

The special event will take place on Friday, 6 of November 2009 late afternoon in the **Upper Chamber of the Houses of Parliament**, i.e. the venue will be the same where AmCham celebrated its tenth and fifteenth anniversary. The evening will start with presentations, greetings and speeches, followed by an award giving ceremony and finally by a gala reception.

We are expecting guests from across the Hungarian society, high dignitaries from home and also from abroad. Most of the speeches will be delivered in English, with simultaneous translation into Hungarian.

We hope that you and your spouse can join us for this unique occasion!

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Hungary on the right track, says IMF

HUNGARY'S ECONOMIC performance has stabilized, as has its banking system, and the IMF has been consistently satisfied with the fiscal policies of the Bajnai government, says Iryna Ivaschenko, resident representative of the IMF in Hungary and speaker at the AmCham Business Forum on September 24 at the Budapest Marriott Hotel. According to Ivaschenko, IMF projections of an economic contraction of minus 6.7% in 2009 and minus 0.9% in 2010, with a turnaround expected in the second quarter of 2010, still seem to be on target, as is a 3.9% budget deficit for 2009 if, she emphasizes, the 2010 draft budget is accepted by Parliament and implemented in full.

"We don't hide anything," she says, reacting to press reports that the IMF is putting up a brighter face to the outside world than is warranted. "Of course, there are serious risks, from the point of view of macroeconomic developments as well as the implementation of policies, and we are cognizant that Hungary is getting close to elections," she says, "but the country is very well on track to reduce its debt to GDP ratio, which is still very high compared to regional peers." Ivaschenko has no problems with comments from opposition politicians that Fidesz, if it wins elections in April/May 2010, will

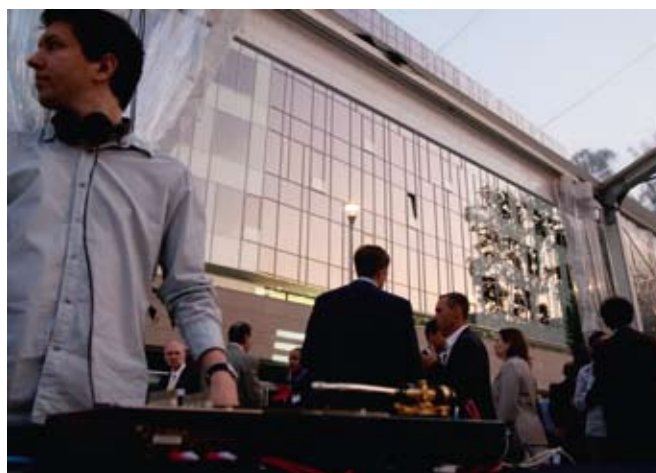


want to renegotiate with the IMF, aiming for a higher budget deficit and different spending priorities in order to stimulate the economy. The recent agreement with the Bajnai government to extend the IMF program through October 2010 ties this program through the election and transition periods, assuring markets that government policies can be continued in the meantime, she says. "It gives the current opposition enough time to form itself as a government and start the negotiation process if it so wishes. But I do want to reiterate that Hungary's public debt is still high and that continued fiscal prudence remains very important," she says. ★

Business After Hours at the Eiffel Square office building

WITH EVERYONE BACK to business in the fall, AmCham is also back with the very successful event series "Business After Hours". The fourth event this year was held at the Eiffel Square office building, a carefully conceived microenvironment in the middle of the city. More than 100 participants had the privilege to partake in this exclusive opening on Sept. 22, where program highlights included music by Andrew J and a chefs' table. The event was hosted by Barbara Brill, Sláger Rádió general manager and vice chairwoman of the board of directors, and also a member of the AmCham board of directors.

Five new members had the possibility to introduce themselves at the event: Greenergy Hungary Holding, Moore Stephens City Treuhand, the Hungarian-Bulgarian Chamber of Commerce, and individual members Tibor Darabont and Matthew Strauss. ★



US CHARGE D'AFFAIRES, JEFFREY D. LEVINE
WITH ERVIN SZÜCS, MD OF WEBER SHANDWICK



The first AmCham Family Sports Day and Soccer Tournament

AS A SEASON OPENER for fall 2009, AmCham, with the support of FirstMed Centers and PricewaterhouseCoopers, organized its very first Family Sports Day and Annual Soccer Tournament on Sept. 19 in Telki.

More than 160 people enjoyed the hospitality of the recently opened Global Football Park and Sporthotel, home to the Hungarian Football Federation's worldwide sport center, where our members could take part in several sport challenges in addition to small-field soccer, including table tennis, penalty kicks, ball juggling, and free shooting. While adults were competing, a clown, a face painter, and a bouncy castle were entertaining the children, who could also compete in various relay-race games. In between games, the event's venue sponsor, Global, provided a very pleasant barbecue lunch. As usual, this event offered an excellent opportunity to meet fellow AmCham members and also to leave with great raffle prizes, thanks to the lavish offers from Hilton Budapest, Budapest Marriott Hotel, the Hungarian Football Federation, Global Football Park and Sporthotel, Johnson and Johnson, Tesco, and FirstMed Centers.

The First-Annual Soccer Tournament cup was taken home by Interdean, with Avon and Hilton Budapest finishing in second and third place, respectively. The host of the event was Péter Dávid, CEO of AmCham Hungary. ★



The aim of this year's Thanksgiving Charity Drive is to support children's homes in Szabolcs-Szatmár-Bereg county, selected during a public draw at the AmCham Annual General Assembly on December 1, 2008.

WE ENCOURAGE ALL MEMBERS TO CONTRIBUTE AND HELP US MAKE SOMEONE'S DAY A LITTLE BRIGHTER.

For more information on how you can support this year's Thanksgiving Charity Drive and for the list of organizations to be supported please visit www.amcham.hu/foundation/



Responsibility beyond philanthropy

“YOU CANNOT AFFORD not to be responsible. Get ready now,” declared Zsófia Lakatos at AmCham’s sustainability seminar on September 9 at the Kempinski Hotel Corvinus Budapest. Increasingly, future consumers will buy from companies they believe are conscientious, so managers should enhance corporate social responsibility efforts immediately, added Lakatos, the Hungarian managing director of Hill and Knowlton and the Hungarian Public Relations Association vice president.

A socially responsible company is one that is accountable for its impact on all relevant stakeholders, from employees and local communities to society at large, and includes “more than a return to capital shareholders,” described András Göllner, strategic communications expert and honorary professor at the Budapest Business School. Being a sustainable business is challenging, since there aren’t commonly accepted management boundaries and criteria for social responsibility, Göllner said. Also, managers are unsure of themselves, because it’s often a peripheral rather than core value. Another issue that is especially problematic in Hungary is that initiatives or campaigns, such as sponsorships or philanthropy, are often discretionary and are used to enhance



public image rather than being an integrated practice, Göllner said.

“You can’t buy being responsible,” Lakatos agreed. To become truly socially responsible, sustainable practices should be enacted throughout the entirety of organizations and companies, from improving employee conditions to environmental impact, and shouldn’t be used as a public relations tool, Lakatos said. For example, Mars Hungary, which sponsored the seminar, reduced some product packaging and, as a result, was able to put 640 fewer trucks on the road annually, said Tamás Ács, Mars Hungary managing director. These important short-term investments will pay back in the long term, Lakatos said. ★

Arbitration as a means for resolving business disputes

THE INCREASE IN THE NUMBER of disputes during a time of crisis and the importance of international arbitration in achieving business objectives was the focus of this seminar, which was sponsored by Kővári Tercsák Salans Attorneys on Sept. 21 in the Kempinski Hotel Corvinus Budapest. When facing potential legal disputes, companies need to carefully evaluate the different means for resolving business disputes. Choosing from available options (ordinary courts, mediation, and arbitration) requires assessing factors such as timing, costs, and predictability of the procedure, as well as the enforceability of decisions.

Two of Salans’s international arbitration experts addressed current issues in this respect from a Hungarian and international perspective. Jean-Christophe Honlet, co-head of the Paris-based Salans International Arbitration Practice Group, and George Burn, London head of Salans’s International Arbitration Practice Group, explained that international commercial arbitration is a private method of dispute resolution. It is chosen by the parties themselves as an effective way to put an end to a dispute, without recourse to the ordinary courts of law. Also, it is a procedure lacking

formality and ceremonial details of ordinary legal proceedings. To an observer, an arbitration process looks more like a business meeting than a legal proceeding where a group of people sitting around a table discuss the relevant legal issues. Nevertheless, legal issues can be rather complicated, and even a simple international arbitration may involve different legal systems.

The event also featured special guest László Kecskés, the president of the Court of Arbitration attached to the Hungarian Chamber of Commerce and Industry. The event was hosted by Laurent Niddam, partner at Szeckay Attorneys at Law and head of the AmCham Regulatory Committee. ★



Using the advantage

INTERVIEW
WITH
GÁBOR GION,
CEO OF
DELOITTE

HUNGARY ACTUALLY BEARS some advantages in the context of the crisis, according to Gábor Gion, chairman and CEO of Deloitte Advisory and Management Consulting. “It was among the first countries to acknowledge that it was in trouble and had to take action, whereas some were in denial,” he explains. “No one can escape these effects, so we have an advantage because we got started first.”

Gion believes there are two interesting aspects of the crisis. “One is that there hasn’t been such a crisis for some time, so we see that it is difficult for management to deal with – it’s new for all of us. On the other hand, there’s the uncertainty – and that’s quite obvious if you read analyses of that question ‘Is it over and what’s its actual impact?’ That uncertainty makes it difficult for anyone to plan. So there are challenges, and that’s where there are opportunities as well.”

And while things may have stabilized in the US, Gion questions what will happen to the massive government debt from attempts to alleviate the crisis: “That will have to be managed eventually, and there’s no clear consensus of where we are or where we are going. I’m sure politicians want to have a say in how the future looks. We can either be passive or proactive as to how business will be conducted in the future.”

Within this context, he believes there’s a role that AmCham and similar organizations can play in the future. “We don’t know

how the crisis will end, but one thing is sure – that the world will be different than it was. I’m convinced that there will be heavy regulations in business and economics, which we already see signs of. The regulations are coming, and organizations like AmCham can take a substantial role in shaping the future.”

BACK ON THEIR FEET

MEANWHILE, enterprises are trying to get back on their feet. “For those indirectly affected, they are looking for opportunities, seeing if they’re out there. But for most, it’s about resizing and waiting until it’s over.” He believes one of the challenges for Hungarian companies is to maintain their corporate social responsibility activities in the face of the crisis. “These would be obvious costs that a company would cut first,” he explains. “But these are the times which mandate socially responsible companies, because many are in difficult situations. We see a significant reduction in CSR, which is understandable – don’t think that anyone should be blamed for that. The government is also cost cutting, but the needs are still great.” According to Gion, Deloitte will continue to focus its CSR activities on the most critical areas, emphasizing charitable contributions instead of sponsorships.

Deloitte’s business has not been immune to the crisis either. “Services lines are having some difficulty selling,” says Gion. “There are not many M&A transactions. There’s a general cost cutting everywhere, which impacts us. There was a freezing of any consulting services in the first half of the year, but it looks like they’re gradually realizing they need help as they have more issues and more problems to deal with. Don’t tell me there are no problems out there, they’re just different than the ones we faced two years ago. We need to address current issues and help with current problems.”

Gion admits pressure to reduce fees can be troublesome, but he’s not convinced they should be lowered. “From the audit and financial services points of view, the environment has become more complex and full of risk, which makes the process more challenging. Why would any element be cheaper? There’s additional complexity and verification involved. So far we’ve managed, in Hungary, to survive without significant layoffs or dismissals,” Gion reports, mentioning that Deloitte has even recently hired 45 new staff for auditing. ★



GÁBOR GION



AMCHAM

Calendar of Events

OCTOBER

14 Wednesday 4 pm
Seminar & Cocktail
Location: Kempinski Hotel Budapest

21 Wednesday 9 pm
Labor Market Dialogue
Location: InterContinental Budapest

29 Thursday noon
Business Forum
Location: Budapest Marriott Hotel

NOVEMBER

6 Friday, late afternoon
20th Anniversary Gala Reception
Location: Upper Chamber of Parliament

11 Wednesday 4 pm
Seminar & Cocktail
Location: Kempinski Hotel Budapest

24 Tuesday 6 pm
Thanksgiving Dinner
Location: Budapest Marriott Hotel

Note: Our events schedule may be subject to change. Please always check the AmCham website (www.amcham.hu) for the most up-to-date information.

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Fax: (+36.1) 888 0371
E-mail: info@greenergy.hu
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Greenergy Hungary Holding is an energy service company specializing in development, operation and management of combined heat and power, and renewable projects. The Washington-based Global Environment Fund dedicated to clean technology, emerging markets and sustainable forestry with more than one billion USD in aggregate capital, owns the majority of shares of Greenergy. Advancing on the clean-tech market, Greenergy aims to become one of the leading alternative energy service companies in Central Europe.

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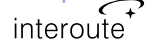
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- Freshly brewed coffee, tea specialities with lemon, honey and milk; home-made cookies in the forenoon
 - Buffet lunch
- A bottle of soda or mineral water during the coffee breaks
- Relaxation in our Kerubina Wellness & Spa department after the conference

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Purchaser's allowance: by reserving at least 50 nights during the offers validity, we present you a voucher for a 2 nights stay in our hotel.

The offer's validity: from September 2009 – 30th November 2009.

To order the Pólus Palace Conference Package, please send us a message to sales@poluspalace.hu or call us: +36 27 530 520.



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