



HUNGARIAN WATCH

Winter 2016



Hungarian Watch Winter 2016

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Hungarian Watch is a quarter yearly issued brochure. It contains comprehensive, up-to-date information about Hungary, focusing on breaking news in the fields of law, economics, business and other situations which could have a major impact on the course of Hungarian events.

Hungarian Watch is primarily prepared for those who are thinking about Hungary from an investment point of view. The investment perspective runs through this brochure by leading the reader through the actual Hungarian business climate including current business and investment opportunities.

We hope that Hungarian Watch will keep you regularly informed on relevant Hungarian news, enabling you to know how and when to seize a business opportunity before it vanishes.

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Table of Contents

Summary	4
Historic rise of Budapest Stock Exchange	5
Boarding for bidders will start soon	6
Bank privatization deal ahead	7
Light at the end of the tunnel	8
About VJT & Partners	9
The Firm	9
VJT & Partners	9
Practice Areas	10
How We Work	11
Our Values	11

Summary



[Historic rise of Budapest Stock Exchange](#)

[Could Budapest outdo the Warsaw Stock Exchange?](#)

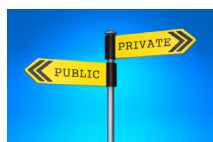
The Central Bank of Hungary (CBH) bought the Budapest Stock Exchange (BSE) after its 25th anniversary. Since the CBH took ownership of the exchange, there have been some significant improvements. The official index of blue-chip shares listed on the BSE (BUX) was hitting levels not seen since the financial crisis of 2008. Capital from Warsaw has started to flow to Budapest. New listings are expected. Overall, the still waters of the exchange have finally been stirred up. This may be just the beginning. Keep your eye on the BSE for more developments. [Read more...](#)



[Boarding for bidders will start soon](#)

[Call for tenders for Balkan Air routes concessions](#)

Budapest Airport has a lot of great stories, but to become a truly regional hub, it also needs the connections with neighbouring countries. Thus, the Hungarian government welcomes new service providers on board to link Balkans to the rapidly developing Budapest Airport. The call for tenders for Balkan Air routes concessions will be published soon. [Read more...](#)



[Bank privatization deal ahead](#)

[MKB Bank to be sold this year](#)

The state of Hungary intends to sell MKB Bank in 2016. Bank of China, a potential buyer? Listing on the Budapest Stock Exchange? Private equity finance? So how will be this deal implemented and who could be the potential buyers? Many issues are still open. But there clearly is a rush, so this could be the last-minute chance for investors to step in. [Read more...](#)



[Light at the end of the tunnel](#)

[Metro line M3 reconstruction project may be implemented in 2016](#)

The mayor of Budapest, István Tarlós, announced that the complete reconstruction of Budapest metro line M3 would start in the second half of this year. The investment volume may reach EUR half-billion. The call for tenders for this long-awaited reconstruction work may be published soon. Stay tuned. [Read more...](#)

Historic rise of Budapest Stock Exchange

Could Budapest outdo the Warsaw Stock Exchange?

The Central Bank of Hungary (CBH) bought the Budapest Stock Exchange (BSE) after its 25th anniversary. Since the CBH took ownership of the exchange, there have been some significant improvements. The official index of blue-chip shares listed on the BSE (BUX) was hitting levels not seen since the financial crisis of 2008. Capital from Warsaw has started to flow to Budapest. New listings are expected. Overall, the still waters of the exchange have finally been stirred up. This may be just the beginning. Keep your eye on the BSE for more developments.



In our previous edition we reported that the number of issuances and turn-overs in the BSE have substantially dropped in recent years. The capital market was weak, so the state decided to intervene. The CBH decided to buy BSE after its 25th anniversary. The goal of CBH is to implement a variety of strategic innovations and in general to stabilize the capital market.

It seems that the market had a very positive reaction to the change of ownership. Since the CBH took ownership of the BSE, its BUX index was hitting levels not seen since the economic crisis. The BUX index was the fourth best performing stock index in the world, and increased by 54% in the last one year.

The purchase of the BSE was an important factor in this huge development, but not the only one. The better investment climate also helped. Experts believe that investors gained more confidence in the Hungarian capital market due to the improved macroeconomic indicators, and the regaining of investment grade status.

As a result, capital from Warsaw Stock Exchange started to flow to Budapest. This is just unprecedented. Since the financial crisis of 2008, Warsaw has been the “outstanding student” of the capital market operations in the CEE region. Budapest was just out of the Warsaw’s league. It seems that a new financial era is arriving.

The new controlling owner of the BSE, the CBH, plans to implement various incentives to increase the number of listings. Many state-owned companies could expand the list such as Budapest Bank, MKB Bank or the energy giant MVM. Also, BSE set its target on negotiating with more than 200 big non-state companies.

The still waters of the BSE have finally been stirred up. But this may be just the beginning. Keep your eyes on the BSE’s developments.

BUX hit historic records

Investors regain confidence

Capital flows from Warsaw to Budapest

New listings expected

Boarding for bidders will start soon

Call for tenders for Balkan Air routes concessions

Budapest Airport has a lot of great stories, but to become a truly regional hub, it also needs the connections with neighbouring countries. Thus, the Hungarian government welcomes new service providers on board to link Balkans to the rapidly developing Budapest Airport. The call for tenders for Balkan Air routes concessions will be published soon.



Budapest Airport has been thriving recently. It has developed very good direct connections to major destinations of the EU and Middle East, and indirectly to the whole globe. Last year the number of passengers exceeded 10 million. This year will be also a milestone as Budapest Airport has just reached its 100th destination by launching Nurnberg-Budapest Ryanair flight.

Budapest Airport has a lot of great stories. However, it may become a truly regional hub only if it also has air connections with neighbouring countries. Unfortunately, since the financial troubled Hungarian state airline Malév was grounded in 2012, direct flights to a number of regional destinations have not been operating.

The Hungarian government decided therefore to call for tenders for unused destination licences previously held by Malév in the West Balkans. These flights include Sofia, Skopje, Podgorica, Tirana and Pristina.

The winners of the routes will obtain a monopoly and can claim compensation for operational losses to generate reasonable profit of such short flights. The winners can sign a four-year term contract by the end of June 2016. According to the Development Ministry the call for tenders will be published in the EU official gazette in the upcoming weeks.

Recently some interesting events occurred in the Hungarian aviation market which could be brought in connection with the new Balkan Air routes.

On one hand, press reported that the Russian aircraft manufacturer Sukhoi would provide six new Sukhoi Superjet 100 aircraft, to launch a new national carrier. Could the new national carrier become a potential player in operating the Balkan Air routes?

On the other hand, American Airlines has recently negotiated with the Hungarian government to reopen new flights between the U.S. and Hungary. Could the Balkan Air routes present the expanded network for American Airlines?

In the end, will the long-awaited concessions attract key players of the aviation market? Only time will tell, but it is certainly encouraging that the government could guarantee the profitability of the flights. Now the potential player could only wait for the publication of the tenders. Be patient, bidders will be requested to start boarding soon.

Budapest Airport, the new regional hub

New air route concessions: Sofia, Skopje, Podgorica, Tirana and Pristina

Sukhoi to provide six new aircrafts

New Hungarian - US flights

Boarding for bidders will start soon

Bank privatization deal ahead

MKB Bank to be sold this year

The state of Hungary intends to sell MKB Bank in 2016. Bank of China, a potential buyer? Listing on the Budapest Stock Exchange? Private equity finance? So how will be this deal implemented and who could be the potential buyers? Many issues are still open. But there clearly is a rush, so this could be the last-minute chance for investors to step in.



In our Summer Edition 2015, we reported that the M&A activity in the Hungarian banking market significantly increased. Now the next very close target could be the privatization of MKB Bank. As we suggested before, the Central Bank of Hungary bought MKB Bank in 2014 in order to clean up its portfolio from distressed assets, make it healthy and then resell it.

The privatization is intended to take place this year. MKB Bank already received several non-binding purchase offers. It seems that there is a rush, the state clearly wants to sell MKB this year. But how will this deal be implemented?

The governor of the Central Bank of Hungary (CBH) allegedly offered to Bank of China to make a take over bid for at least 51%, but possibly for 100% of MKB Bank's shares. The CBH declined to comment on these rumors.

Minister of National Economy, Mihály Varga announced another course. He said that the privatization of MKB Bank will be carried out through a listing on the Budapest Stock Exchange (BSE) in 2016. This scenario is also possible especially taking into account that both MKB Bank and the BSE is owned by the CBH. In this context, it is also worthwhile mentioning that the new strategy of the BSE is precisely to introduce listings of big state owned companies such as MKB Bank. This scenario would create the possibility not just for bigger financial institutions, but also for many smaller investors too.

However, rumours suggest that it is early for listing. Instead, experts believe that private equity finance is a more possible scenario where Anglo-Saxon private equity firms (such as Apollo Global Management or Advent International) could create a good brand, and raise huge capital by collecting it from local Hungarian investors. Such financing could pump up MKB and delay the initial public offering on the stock exchange making it even more successful.

What will happen next? At this stage, the only certain thing is that the state intends to sell MKB Bank this year. Also, it seems plausible that the state will not sell the complete package to a single buyer. Instead, more investors could take their own piece of cake. Many issues are still open. But there clearly is a rush, so this could be the last-minute chance for investors to step in.

MKB Bank to be sold to Bank of China?

New listing on the Budapest Stock Exchange?

Anglo-Saxon private equity firms, a golden opportunity?

What next?

Last-minute opportunity

Light at the end of the tunnel

Metro line M3 reconstruction project may be implemented in 2016

The mayor of Budapest, István Tarlós, announced that the complete reconstruction of Budapest metro line M3 would start in the second half of this year. The investment volume may reach EUR half-billion. The call for tenders for this long-awaited reconstruction work may be published soon. Stay tuned.



M3 metro line (M3) is the busiest public transport in Hungary. Close to half million passengers travel on M3 each day. On a daily basis there are more passengers on M3 than on all other Hungarian railway networks together.

Despite its significant role, M3 has been untouched for more than three decades, so the metro line itself, its technical equipment, trains, and stations are in very bad condition. More and more delays and breakdowns occur on a daily basis.

As M3 has an essential role in the normal operation of the Budapest public transport system, its reconstruction has simply become inevitable.

The mayor of Budapest, István Tarlós, announced the long-awaited news. The complete reconstruction of M3 may start in the second half of this year.

The project will be significant as it may cost EUR half billion. Whilst the details of the planned project are not yet public, such a major infrastructure project will undoubtedly offer great opportunities for the construction and railway sectors. Siemens and Bombardier may be among the bidders for the electrical construction, train management, and control systems. Swietelsky, Strabag, Porr and Közgép may compete for track renewal work, and for refitting the tunnel which will surely be the greatest challenge of this project.

VJT & Partners will keep the readers informed about this project. The call for tenders for this project may be published very soon. Stay tuned.

Half-billion EUR
valued project

Potential players:
Siemens,
Bombardier,
Strabag,
Porr

Call for tenders may
be published soon

About VJT & Partners

The Firm

VJT & Partners is a Hungarian commercial law firm advising international and domestic corporate clients and entrepreneurs. The firm was founded by Janos Tamas Varga, who has created a highly successful team based on values including inspiring leadership, striving for perfection, commitment, courage and harmony.

VJT & Partners is recognised as one of Hungary's leading commercial law firms and also as an excellent collaborative partner, working hand-in-hand with its clients. Clients value the firm's absolute commitment, leading to effective and enduring relationships. The firm combines the highest degree of professionalism, the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Lawyers in the firm have developed an in-depth understanding of both the legal and the commercial realities of business. The firm prides itself in giving direct, honest and practical advice, tailored to its clients' needs. The shared values of VJT & Partners are at the very core of the creativity and 'fresh thinking' approach of the firm.

As a member of the EU, but not the single currency, Hungary has a unique language and business culture and a complex legal system bringing particular challenges. All lawyers at VJT & Partners have extensive experience of working with international and domestic companies alike, to help navigate these challenges and to achieve their objectives in Hungary, and to ensure appropriate regulatory approvals.

The leading legal directories rank VJT & Partners highly across a range of practice areas.

VJT & Partners is a full-service law firm that satisfies the needs of clients across a broad range of industries and professions. The firm's legal services include aviation, commercial contracts, competition, corporate M&A, data protection, dispute resolution, finance, immigration, employment, intellectual property, outsourcing, private equity, real estate, regulatory, restructuring and insolvency, and technology.

Practice Areas

The firm is especially active and highly ranked in the following areas:

Corporate mergers and acquisitions

VJT & Partners believes that advising on M&A transactions is to provide more than just legal advice. Understanding the logic and dynamics of the industry sector in which the client and other participants operate is a prerequisite for success.

We advise clients on international and Hungarian M&A transactions including acquisitions, disposals, mergers and demergers, from deal inception through due diligence and negotiations to post completion. The expertise of our multi-disciplinary team in the areas of corporate, commercial, competition, real estate, employment and regulatory enables us to provide excellent service.

Employment

The highly-rated employment lawyers at VJT & Partners have a wealth of experience in all aspects of contentious and non-contentious employment matters. Fully appreciated for understanding their clients' business goals, lawyers design structures and procedures that are watertight and defensible in many court proceedings.

We regularly advise employers on general employment matters including drafting employment agreements, internal policies, termination agreements, termination notices and complex mass dismissal structures as well as employee incentive schemes. We have particular expertise in managing work permit and business immigration applications as well as advising on the different employment and labour related issues which arise with commercial transactions such as outsourcing.

Our team has successfully represented employers and executive employees in all types of court proceedings in Hungary. In particular, we represent clients in disputes concerning issues which include unlawful termination, overtime payment and bonus claims.

Technology

Understanding our clients' underlying technical and technological ideas and objectives, while providing clear, concise and practical advice lies at the heart of our work. The phenomenon of convergence and the rapid proliferation of innovative services inspire our Information, Communications & Technology (ICT) team to continue to build unique expertise in a wide range of technology matters.

Our lawyers have particularly strong track record in commercial IT arrangements such as software licensing, call centre and hosting services as well as hardware procurement, online and e-commerce matters such as setting up web-shops. We also regularly advise on sector-specific regulatory issues concerning communications services such as licensing, interconnection and carrier-pre selection.

How We Work

Lawyers at VJT & Partners are encouraged to develop, to enjoy their work and to become real 'Masters of Collaboration'. Clients comment on the firm's cooperation, communication and its absolute commitment to what they are trying to achieve.

In turn, we find that this leads to effective and enduring relationships. We combine the highest degree of professionalism and the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Our Values

The values that lie at the heart of our business ethos are the building blocks of our business. Nurturing the following values brings the 'hearts and minds' of VJT & Partners' lawyers together as one successful team. We would be happy to talk you through them, what they mean to us, to our business and our clients:

- Inspiring leadership
- Striving for perfection
- Commitment
- Courage
- Harmony

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