

Hungary's ICT Sector

Overview

The information, communications and technology (ICT) sector in Hungary has matured in recent years and the country has emerged as one of the most developed outsourcing markets in the region. There has been a slight year on year progression of total information technologies (IT) expenditures from 1999-2003 and this trend is expected to continue through 2008. Call centers and enterprise resource planning are two areas of particular concentration. Local analysts see software and IT services taking over from IT installation projects, which saw rapid growth during the 1999-2002 IT boom.

Hungary has a service-based economy, with industry and agriculture contributing less than 35% of GDP. The demand for complex IT systems is fairly high as a result of service sector needs and FDI in the development of sectors that were not previous players in the Hungarian market, such as auto manufacturing. As of June 2005, PC penetration in firms employing five or more people reached 90%, with the average age of PCs being relatively low in the hotel, restaurant, telecommunications and logistical enterprises industries.

Hungary is engaged in fierce FDI competition within the Visegrad Four countries of Hungary, Poland, Czech Republic and Slovakia, as well as a few other emerging markets. As manufacturing, the first focus of FDI in the region, moves to Southeast Europe and Asia, local businesses hope that services with a heavy IT component will be the new supplier of jobs and growth. The IT business community places itself on a similar regional footing with the Czech Republic in regards to FDI and customer decisiveness. However, India and to a lesser extent, Russia, are outpacing Hungary as intellectual centers for software development. IT business leaders cited labor costs, an insufficient number of highly qualified skilled workers and technicians and the need for better English language skills as reasons why Hungary lags. However, they were quick to note that Hungary is "shortlisted" for many upcoming software development projects.

The global ICT sector is currently undergoing a rash of mergers and acquisitions and the Hungarian ICT sector will be no exception to the pervading trends. Tata Consulting, an India-based firm, announced plan to employ over 200 technical engineers in Hungary and U.S. based Autodesk recently purchased Budapest-based software developer. In addition, Hungary has become a popular location for call centers with Nokia, Exxon Mobil, EDS, GE and IBM all establishing global and regional accounting centers in Budapest and other urban centers. Ten thousand Hungarians were employed in call centers in the Budapest region, according to a report published late last year.

Telecommunications Fully Privatized

High telephony costs and the dominance of formerly state-owned Matav, owned by Deutsche Telekom and renamed Magyar Telekom, in fixed telephony services testify to the need for greater competition. The telecommunications sector is now fully privatized

with the recent sale of Antenna Hungaria. There is still much debate surrounding the Hungarian government's "golden shares" in Matav which allegedly provide the government with veto power over business transactions. Nonetheless, Hungary's telecommunications market is more liberalized than elsewhere in the region, for example Slovakia. Magyar Telekom currently hopes to expand its services into neighboring Serbia and Bulgaria, and is present in the Macedonian market.

In the 2005 Economic Review of Hungary, the OECD states that the 2004 Telecommunications Act has the potential to be an effective means of increasing competition among service providers. The OECD cautions that time is needed gauge to the effectiveness of this legislation.

Mobile Networks Ready for 3G

With a strong telecom network and the highest level of cellular phone usage in the region, the Hungarian ICT market is ripe for the transition to 3G networks. While the number of mainline telephones in Hungary has risen three-fold since the transition period began, the number of fixed lines has decreased in recent years as mobile phone usage has skyrocketed from nothing to roughly 9 million subscribers. Mobile phone penetration is exceptionally high at 90%.

Cell phone usage tends to remain highest within a mobile user's same network as fixed line telephony usage remains highest across fixed lines. GSM network usage has peaked on the Hungarian market, but with three UMTS licenses already issued to existing operators, Hungary is in a good position to make the transition to 3G mobile networks. UMTS video telephony is being introduced to the market. Vodafone recently announced plans to invest \$1 billion to build 3G networks by building 4,000-5,000 base stations in Hungary. T-Mobile has introduced services that enable mobile users to make payments via a mobile credit card with M-Commerce.

Broadband's Popularity Increases

Internet penetration does remain low, though, and at less than 20%, it is among the lowest in the new accession countries, indeed in the EU25 as a whole. Internet service provider (ISP) trends have followed the general trends of the mobile networks. As DSL and wireless subscriptions have increased as the number of fixed line (modem) users has decreased. While the IP fixed telephony market is saturated, ISPs are expecting rapid growth and have directed their attention to the broadband market. T-Online, the Magyar Telekom owned subsidiary, has a 51% share of the DSL market. WiFi has had a greater role in recent years in providing broadband communications in public areas and institutions, but even within urban centers its reach is relatively confined. Currently government measures are in the works to promote broadband access in the second national development plan encompassing the 2007-2013 fiscal years. The IT Ministry hopes to bring penetration levels up to EU levels by 2008.

Growth in the Financial Services and Telecom Sectors Fuels Software Sales

Enterprise Resource Planning (ERP) software has been the “locomotive of growth” during the last few years, fuelled by the expansion of the financial services and telecommunications sector. Hungary has a few regional and global success stories in firms like GrafiSoft, FreeSoft and Kürt, a data recovery firm. Areas of significant growth include project services and outsourcing. Some of Oracle’s recent projects in Hungary include the installation of customer-assistance systems at Credit Suisse Life and Pensions, software updates at Erste Bank, and a procurement system for Vodafone, while Sun Microsystems set up its new consolidated storage solution system, Sun StorEdge 9980, at Hungary’s OTP Bank. The increase in demand for securities technologies and from small and medium-sized enterprises (SMEs) has provided new opportunities for IT firms doing business in Hungary.

Piracy and Intellectual Property (IP) Protection

Hungary has made steady progress in eradicating pirated IT materials from the marketplace since 2003 when Hungary was placed on the Priority Watch List for IP violations, consisting primarily of patent and data exclusivity issues. With the exception of software, IT inventions have been theoretically protected for 10 years by the “Patent Act” (Act XXXIII of 1995), with wording identical to Article 52 of the European Patent Convention. Computer software is protected under the Copyright Act (Act LXXVI of 1991, Article 1, Paragraph 2c) However, continued prosecutorial delays, failures in moving criminal cases forward, low fines, poor sentencing and border enforcement as well as the spread of internet piracy complicate the pursuit of IP violations.

While Hungary may no longer be considered a haven for the importation of pirate CDs, it still receives a good sized share of pirated technologies from the Ukraine and Russia. Recent reports in local news media cite a 25% drop in CD sales as an indication that counterfeiting, piracy and home copying are on the rise. In 2004, Hungary supported the Common Position of the EU Competitiveness Council on computer-implemented inventions.

Public Initiatives and the Future of the ICT Sector

Brussels has provided little financial support for IT development within Hungary; most of the funding has been provided locally. While the Hungarian government has announced its intent to place ICT at the forefront of the second national development plan, the ICT business community has experienced and expects a continued hard fight with the Finance Ministry and other ministries to realize this goal. The formation of the IT Ministry in 2002 signaled a change in the public sector’s attitude toward the importance of IT technologies. The IT Ministry has been working to promote the expansion of IT services and increase internet penetration levels in Hungary.

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