Tourism investments attraction plan

City of Siofok

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1. INTRODUCTION

Tourism, as an important economic activity in Hungary, but also throughout the European Union, has a major impact on economic growth, employment and social development. According to the World Tourism Organization's report, Europe is the most popular tourist destination in the world. Tourism in the European Union employs significant number of people, while the total contribution to the economy is about 10% of gross domestic product of the Union. What is currently characterizing tourism is, among other things, the growth and diverse tourist demand for different and new content. In order for Hungary to be able to respond to the challenges of globalized and modern tourism, it is necessary to continually work on the development of new products and services directly or indirectly linked to tourism. By using simple vocabulary, it is necessary to enrich the tourist offer in tourism.

Continuous development of new products and services or content development within Hungary area will enable Hungary to remain competitive at the EU level, but also around the world. Such a scenario is extremely important for regions that have a greater tourist activity, and one of them is Balaton. Along with the development of content, it is necessary to develop a more desirable and more competitive business and investment environment that will motivate investors to invest and realize investment in tourism, thus enabling Hungary to further advance on the list of most desirable investing destinations. Such an approach will also provide significant foreign direct investment in Hungary which has a major role in stimulating economic growth and development of the country.

It is important to consider all the relevant facts related to the history of Hungary and Balaton in terms of tourism, cultural heritage, traffic connectivity, geographical position, etc., when defining the goals, as well as analyzing the situation and emphasizing it. All this plays an extremely important role in defining tourist potentials, selection of thematic priorities within the tourism sector or ways of promoting potential investments and attracting investors.

2. SWOT ANALYSIS

INTERNAL FACTORS	
STRENGTHS (+)	**WEAKNESSES (–)**
• Lake Balaton is a major tourist destination, not only in Hungary, but in CEE region as well • Hospitality • Existing, developed tourism infrastructure in the region • Location, accessibility and infrastructure • Large number of leisure guest arrivals • Networking • Marketing and promotion • Good accessibility via M7 highway • Different natural features around the lake	• Strong seasonality of tourism at the Balaton region (not only annual seasonality, but also weekly seasonality due to the weekend trips of second home owners) • Low population of the Balaton region • Political and business environment • Limited features for less sunny days • Still present lack of available quality accommodation

2.1.

EXTERNAL FACTORS	
OPPORTUNITIES (+)	**THREATS (–)**
• Only a few comparable, tourist-related offers in the region • Heal appeal for repeating visitors due to diversity of products/services offered can be reached • Become a unique entertainment area in off-peak season • Improving image • Croatian EU accession - more joint cross-border initiatives	• Tourism demand at Lake Balaton is stagnating • Risk that other major attractions might open in CEE region • New attraction could be unique to domestic demand but might not be 'cutting edge' for international 'Western' tourists • Existing and potential attractions

STRENGTHS

Due to its touristic attractiveness, the Balaton Region can be listed among the relatively developed areas of the country. This area encompasses vast natural green spaces and, particularly, natural river landscapes; it abounds with water resources including lakes, rivers and thermal wells; it lies along three large Central European rivers: Mura, Drava and Danube; it sports large hunting grounds. Most importantly, the area is a place of remarkable natural and cultural attractions. These range from Lake Balaton as Central Europe's largest lake, the arresting beauty of its rivers and particularly the still largely natural Drava, the vast fertile plains, vineyards and healing thermal waters, to picturesque baroque towns, impressive castles and manor houses dispersed throughout and the rich, still very much lived rural folk culture. In terms of both nature and culture, this is a very diverse and a very authentic landscape.

Hospitality is also strength worth mentioning, because the traditional welcoming culture of the local population and their positive attitude toward hospitality services are important assets in the development of quality tourism products.

The area is easily reached from Budapest and Zagreb by modern highway networks, on the Croatian side it is serviced by international and regional airports, and the river ports on the Danube also service international river cruisers. Regarding good accessibility, it is important to point out that the area's location is close to large domestic (e.g. capital and larger cities) and foreign generating markets (e.g. Austria, Czech Republic, Germany).

Networking relates to the increasing number of destination management companies, since there is a steady growth of incoming agencies providing a regional 'experience chain' by integrating a variety of products and services. In addition to that, there is an increasing awareness of the mutual interdependence and consequent cooperation between the tourism sector and producers of local food specialties (meats, pastries, honey, herbs, spirits and wines), but also with traditional crafts producers, music and dance associations and museums.

2.2. WEAKNESSES

Seasonality has a major effect on tourism of the Balaton region. Both domestic and international guests tent to visit Lake Balatonin the summer months – approximately 50% of the guest nights fall between June and middle of August.

Moreover, there is still a general lack and a distrust of the quality of available accommodation; particularly lacking are quality facilities with local charm and atmosphere (e.g. bed and breakfast or small hotels). Additionally, there is a low occupancy rate within existing accommodation.

From the political and business environment point of view - due to the world financial crisis and the poor political and administrative preparation of the Cultural Capital of Europe programme in Hungary, the majority of private investments into the tourism sector has been cancelled, with especially hotel projects remaining in the pipeline; the impact on the area's tourism sector also lags behind. An underdeveloped financial sector and the underfinanced local governments are not in a position to provide stable financing or subsidizing schemes to tourism-related start-up projects; funds for entrepreneurial initiatives are limited; interest of foreign investors is limited; there is a significant discrepancy between large and small towns' capability in attracting or initiating projects.

2.3. OPPORTUNITIES

The tourism of Lake Balaton can also be illustrated by the fact that prior to World War II it was known as a quality destination, but quality turned into mass tourism during the second half of the twentieth century. Whilst the annual number of guest nights exceeded 8 million in the 80's this amount dropped to only 3,4 million by 2003. In 2012 there were 4,4 million guest nights spent around the Lake in hotels, motels, pensions, camping and other registered places. Even though Lake Balaton obtained a negative 'cheap destination' image during the mass tourism period, its image has been improving over the past few years, mainly due to new quality accommodation and infrastructural developments in the area. This can be recognized as a great opportunity for increasing promotional activity.

Parallel attraction development projects in various fields contribute to the general attractiveness of the region as the experience offer reaches a critical level. Croatian EU accession can also be recognized as potential opportunity in terms of allowing more joint cross-border initiatives and may lead to higher EU funding for the two countries' co-operation during the next budgetary period.

2.4. THREATS

However, if Balaton’s tourism demand remains low, planned investments will not become feasible and thus projects might get stuck in the pipeline. This could be a potential threat to the tourism development in this area.

Another concerning fact is that most of the tourists spend 3 to 4 nights at the Lake (average length of stay on registered accommodations is around 3,3-3,5 nights in the last years) with a relative low spending willingness. The number of foreign guests is continuously decreasing. The share of Balaton decreased from 14,2% in 2007 to 7,4% in 2013 among foreign tourists in Hungary at registered accommodations.

3. INVESTMENT PROMOTION POLICIES

Hungary ranks 48th out of 190 countries in the World Bank's Doing Business 2018 ranking (41st in 2017). Among the country's assets are its investment-friendly tax system, good infrastructure and its geographical location as a bridgehead between Eastern and Western Europe.[1]

Hungary's central location and high-quality infrastructure have made it an attractive destination for Foreign Direct Investment (FDI). Between 1989 and 2016, Hungary received approximately $80 billion in FDI, mainly in the banking, automotive, software development, and life sciences sectors. The EU accounts for 79% of all in-bound FDI; the United States is the largest non-EU investor. The GOH actively encourages investments in manufacturing and high-value added sectors, including research and development centers, and service centers. The GOH industrial strategy targets biotechnology, information and communications technology, software development, the automotive and defense industries, and health tourism as priority sectors for growth. To promote investment, at the start of 2017 the GOH lowered corporate tax to 9% and labor tax to 22% in these sectors, among the lowest rates in the EU.[2]Competitive tax system in 2017 a flat corporate income tax rate replaced the former progressive system in Hungary: 9% corporate income tax and no withholding tax on payments (interest, dividend and royalty) made to foreign legal entities. Further main tax rates are:

- 2% maximum local business tax;
- 0.3% innovation contribution;
- 27% general VAT rate;
- 18% is a reduced VAT rate for e.g. bread, milk, internet services and accommodation services;
- 5% is the reduced VAT rate for e.g. journals, books, medicines, chicken, pork and central heating;

[1]Santander trade Trade Portal, Hungary – Foreign investment, https://en.portal.santandertrade.com/establish overseas/hungary/foreign-investment (posjećeno: 27.09.2018.)
[2]U.S. Department of State, Investment Climate Statements for 2017.: Hungary,https://www.state.gov/e/eb/rls/othr/ics/2017investmentclimatestatements/index.htm?dlid=269908&year=2017#wrapper (posjećeno: 27.09.2018.)

- 0% means exemption for certain services.[3]

Hungary maintains an open economy and its high-quality infrastructure and central location are features that make it an attractive destination for investment.The GOH in 2010 implemented a number of tax changes to increase Hungary's regional competitiveness, including a reduction of the personal income tax rate to 16% in 2010 and 15% in 2016, the reduction of business income tax rates to 9% in 2017.

The Foreign Investment Act of 1988 is the main law protecting investors. It grants full protection to the investments and businesses of non-Hungarian resident investors and guarantees that non-Hungarian investors will be treated in the same manner as Hungarian investors. The Act also contains a repatriation guarantee under which foreign investors are free to remit profits and investment capital to their home country in the event of partial or complete termination of their enterprise.

Hungary has a well-developed incentive system for investors, the cornerstone of which is a special incentive package for investments over a certain value (typically over 10 million Euro). The incentives are designed to benefit investors who establish manufacturing facilities, logistics facilities, regional service centers, R&D facilities, bioenergy facilities, or those who make tourism industry investments. Incentive packages may consist of cash subsidies, development tax allowances, training subsidies, and job creation subsidies. The incentive system is compliant with EU regulations on competition and state aid and is administered by the Hungarian Investment Promotion Agency (HIPA) and managed by the Ministry of National Development (MND).

3.1. INVESTMENT INCENTIVES

One of the competitive advantages Hungary has compared to other countries in the region is the Government's strong commitment to streamlining business processes and to increase the competitiveness of enterprises through a wide range of available incentives. Both refundable and nonrefundable incentives are available for investors coming to or expanding in Hungary. The main

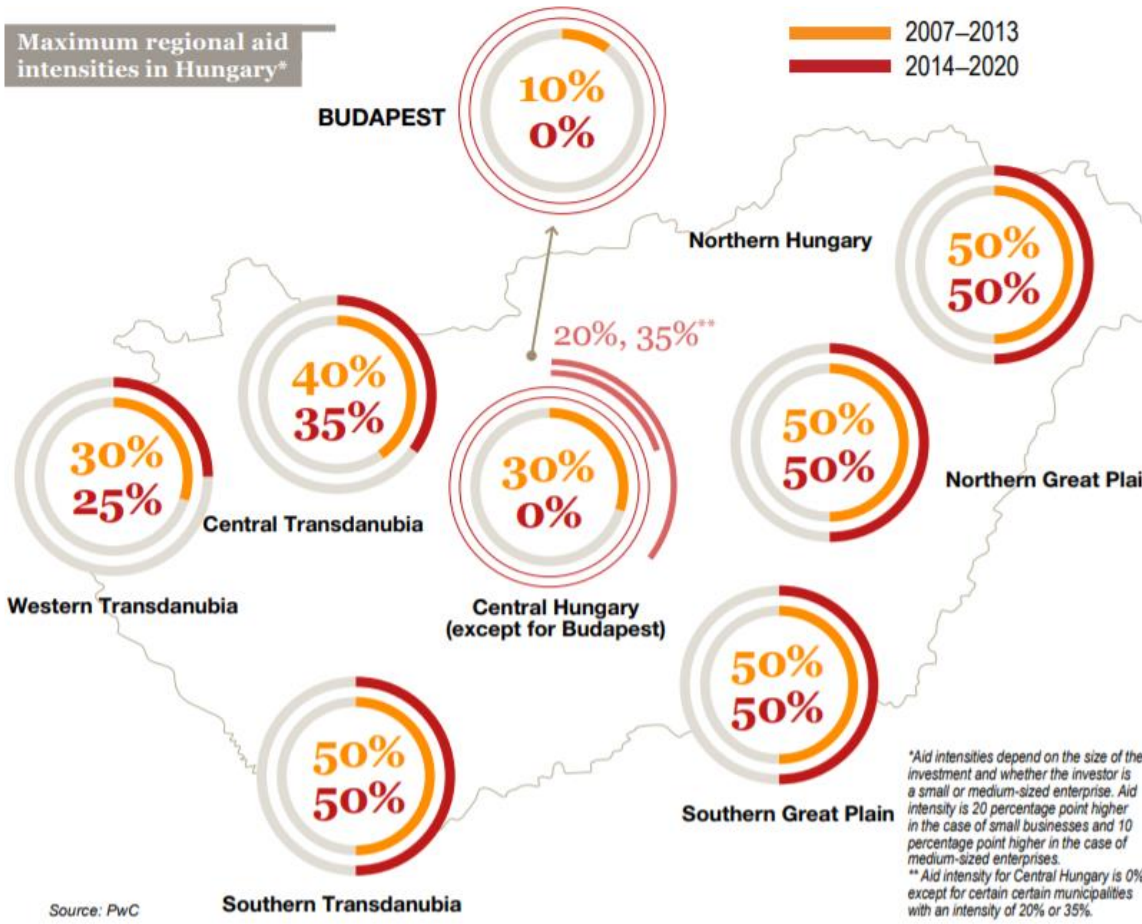
[3]Guide for potential investors, Investing in Hungary 2017., https://www.pwc.com/hu/hu/szolgaltatasok/adotanacsadas/allami_tamogatas/invest_in_hungary.pdf(posjećeno: 27.09.2018.)

types of incentives related to investments are cash subsidies (either from the Hungarian Government or from EU Funds), tax incentives, low-interest loans, or land available for free or at reduced prices.The regulations on incentive opportunities are in accordance with EU rules.

- **REGIONAL AID INTENSITY MAP**

The maximum available amounts of regional incentives are based on a regional aid map. All seven regions of Hungary are qualified for incentives, and aid intensity varies between 10% and 50% for large corporations, while small- and medium-sized companies are able to increase the intensity of the received subsidies by 10 or 20 percentage points. The maximum aid intensity for the capital city, Budapest, is 10% for large corporations. The maximum available aid intensity decreases if the investment is a large investment (exceeding EUR 50 million): 50% of the maximum aid intensity determined in the regional aid map is available for that part of the investment between EUR 50 and 100 million, while 34% of the maximum aid intensity for that part of the investment beyond EUR 100 million. When calculating the maximum available amount of regional incentives, all regional incentives – including cash subsidies, development tax incentive, etc. – need to be taken into account.

The maximum available amounts of regional incentives are based on a regional aid intensity map. The map for the period 2007-2013 is valid until 30 June 2014 i.e it applies to grants awarded before 30 June 2014. From 1 July 2014 the intensity ratio in most regions will change, except in less developed regions (50% intensity ratio remains). Small and medium-sized companies are able to increase the intensity by 10 or 20 percentage points. The modifications strongly affect the Central Hungarian region where the regional aid intensity will vary between 0% and 35% from 1 July 2014 depending on the location. For Budapest, the intensity ratio will be 0% for investment subsidies, as in other capital cities in the region (e.g. Bratislava, Prague). Training and R&D subsidies will still be available in Budapest in the 2014-2020 programming period. The maximum available aid intensity decreases if the investment is a large investment (exceeds EUR 50 million): 50% of the maximum aid intensity determined in the regional aid map is available for that part of the investment between EUR 50 million and 100 million, while 34% of the maximum aid intensity for that part of the investment beyond EUR 100 million. When calculating the maximum available amount of regional incentives, all regional incentives – including cash subsidies, development tax incentive, etc. – need to be taken into account.



Source: PwC

- ## "VIP" INVESTMENT SUBSIDY

The main types of cash incentives related to investments are focused on implementing the investment (e.g. purchasing assets, construction work, etc.), creating new jobs and training employees.The Hungarian Government provides a negotiation-based "VIP" subsidy opportunity for investments greater than EUR 10 million with a certain number of newly created jobs, depending on the purpose and location of the investment. If the investment is between EUR 10 and 25 million, the Hungarian authorities will investigate the possibility of subsidizing the project from available EU Funds. The Hungarian Government considers asset, technology-intensive (e.g.

purchasing assets, construction work, etc.) job creation, and R&D investments as priorities in the field of investment promotion by providing VIP cash subsidy for such projects. The amount of the subsidy is influenced by the number of jobs created by the implementation of the investment, and the development of the region where the investment will be implemented. In order to be authorized for a VIP cash subsidy, investors shall create at least 50 new jobs in all regions of Hungary which can be subsidized, in case of investments aiming at the creation or the expansion of Regional Shared Service Centres.

In case of any type of investment in the most preferred counties (Nógrád, Szabolcs-Szatmár-Bereg, Békés) the investment should reach at least EUR 5 million in volume, creating 50 new jobs. In preferred counties (Vas, Zala, Veszprém, Somogy, Baranya, Tolna, Bács-Kiskun, Csongrád, Jász-Nagykun-Szolnok, HajdúBihar, Heves, Borsod-Abaúj-Zemplén) the investment should reach at least EUR 10 million in volume, creating 50 new jobs. In developed counties (Győr-Moson-Sopron, Komárom-Esztergom, Fejér, Pest) the investment should reach at least EUR 20 million in volume, creating 100 new jobs. Please note that investments implemented by large enterprises can only be subsidized in Central Hungarian region, if the investment is located in an area which can be subsidized and the investor sets up a new establishment or expands the activity of the company with a fundamentally new activity.

The main areas that attract support are investments in manufacturing (greenfield, brownfield or capacity extension), shared service centers, research and development, and tourism projects. In order to be eligible for the subsidy, 50-100 new jobs have to be created by the investor in the case of manufacturing investments, depending on the region where the investment takes place. In the case of large investments of more than EUR 50 million, 100-200 new jobs have to be created, depending on the place of the investment.In the case of establishing or expanding SSCs, at least 100 new jobs have to be created in general, and at least 200 new jobs in central Hungary. In the case of R&D related investments at least 10 new jobs have to be created in connection with the R&D activity. Subsidy applications can be submitted to HIPA in either Hungarian or English. The terms and conditions of the VIP subsidy are determined in the negotiation procedure between the investor and the Hungarian authorities.

- ## "VIP” TRAINING SUBSIDY

The Hungarian Government also offers what is known as the VIP subsidy opportunity for training employees for new positions. The subsidy is available to investors creating at least 50 new jobs. The maximum amount of the training subsidy for creating 50 to 500 new jobs is EUR 1 and 2 million for creating more than 500 new jobs. It is provided for both general and special training. The maximum aid intensity is 60% in the case of general training and 25% for targeted training. The aid intensity can be increased further in the case of small- and medium-sized enterprises and for training of disabled or disadvantaged workers. The training subsidy is not a regional incentive, thus it can be granted on top of the maximum regional aid intensity.

- ## “VIP” JOB CREATION SUBSIDY

The Hungarian Government provides a job creation subsidy for those investments entitled to VIP investment subsidies and that create at least 250 new jobs in disadvantaged or least-developed micro-regions. The maximum available subsidy is EUR 3 million, depending on the location and the number of new employees.

- ## VOCATIONAL TRAINING FACILITY SUBSIDY

A subsidy opportunity is available for establishing vocational training facilities and the development of the equipment for practical training. In order to be eligible for the subsidy, the number of vocational school students with training agreements has to be increased by at least 50 compared to the average number of trainees in the two school years prior to the submission of the subsidy request. The maximum subsidy amount is EUR 8,000 per student, and the total subsidy received cannot exceed EUR 2 million per beneficiary.

- ## CASH SUBSIDIES FROM RESEARCH AND TECHNOLOGY INNOVATION FUND

Subsidy opportunities are available from the Hungarian national budget, primarily aimed at R&D activities involving a broad cooperation of companies, universities and research institutions. The subsidies are available through a tendering process.

• NON-REFUNDABLE CASH SUBSIDIES FROM EU FUNDS

A wide range of tender opportunities are available from EU Funds, for which investments of less than EUR 10 million can also qualify. The conditions for the EU tender application, the timing, and the total amount of the subsidy available vary from tender to tender. The tenders reflect the importance given to supporting R&D activities, the creation of new workplaces, environmental investments, and technological investments (with preference given to small and medium sized enterprises).

Cash subsidies from EU Funds for 2011-2013 are available through the New Széchenyi Plan (ÚjSzéchenyiTerv in Hungarian, also known by its initials ÚSzT), which was announced in January 2011. The plan focuses on the following areas:

- Health industry
- Green economy
- Enterprise development
- Science – innovation
- Employment
- Transportation

• TAX INCENTIVES

Tax incentives are available for companies' future transactions. Applications have to be submitted to the competent authority in Hungary or to the competent EU institution before projects start. There is a wide range of tax allowances for new investments and R&D. Hungary provides tax exemption on holding structures, capital gains on shares and intellectual property under certain conditions are tax free, and a 50% tax allowance is applicable on royalty incomes. There is no withholding tax on dividends, interest and royalty paid by a Hungarian company to a foreign company. Hungary has a wide international treaty network with more than 80 double tax treaties.

- **DEVELOPMENT TAX INCENTIVE**

Each development tax incentive may be claimed for a 10-year period (beginning after completion of the development) in Corporate Income Tax (“CIT”) returns within a maximum period of 14 years from the original application for the incentive.

In any given tax year, the tax incentive is available for up to 80% of the tax payable, but in total up to the state aid intensity ceiling. Applications for tax incentives have to be submitted to the Ministry for National Economy, and the Hungarian Government has the right to grant permission if the aggregate eligible costs of the investment exceed EUR 100 million. If the investment is below this threshold, taxpayers only need to notify the Ministry for National Economy before starting the investment.

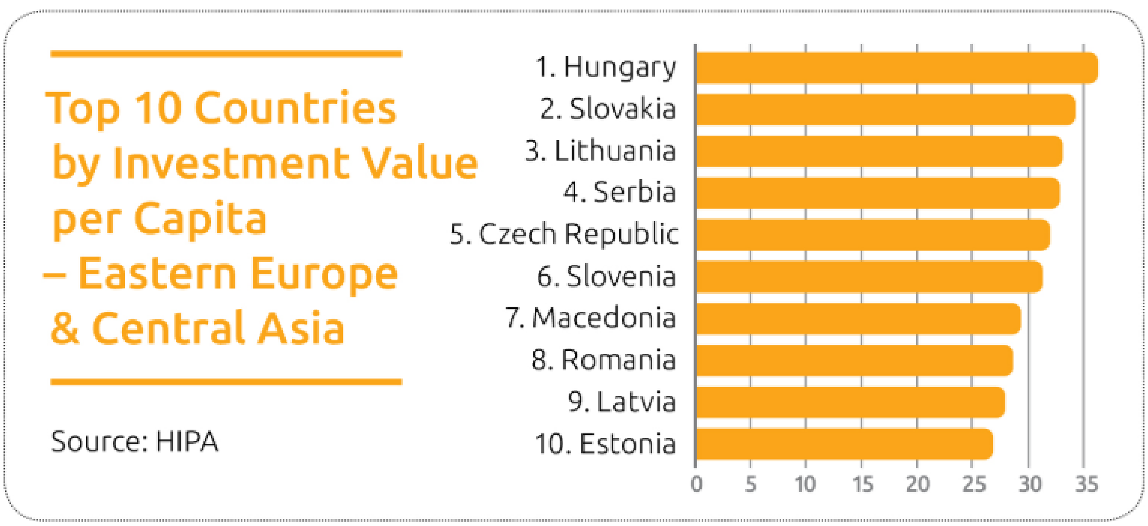
3.2. HUNGARIAN INVESTMENT PROMOTION AGENCY (HIPA)

The Hungarian Investment Promotion Agency (HIPA) is a national investment promotion organization governed by the Ministry of Foreign Affairs and Trade. HIPA contributes to the economic development of the country by promoting Hungary as an ideal location for investments and by providing management consultancy services to investors and prospective investors. HIPA collects and promotes projects that require capitalization. It provides professional consulting services to interested companies free of charge in a one-stop-shop service model, supporting them in selecting a business location, providing tailor-made incentive offers and information on state subsidy issues, identifying investment possibilities and dealing with public authorities.

Besides the traditional investment promotion services, the Hungarian Investment Promotion Agency (HIPA) also provides the exploration, professional qualification and promotion of investment projects that are in need of external financing sources and financial or strategic investors free of charge . These projects are included in the Hungarian Investment Projects (HIP) portfolio. Projects in the portfolio are qualified according to a prior, objective filtering scheme. As a result, only financially supportable projects with high potential for feasibility will be offered to investors. The project portfolio currently covers 5 sectors: agriculture and food industry, manufacturing, green industry, innovation and real estate and tourism.

In 2018, the Hungarian Investment Promotion agency (HIPA)was named the top investment promotion agency in the region. According to a press release sent to the Budapest Business Journal, the award was based on its results in promoting FDI, the quality and complexity of services offered to customers, expertise, language skills and customer-friendly attitude of its employees, and feedback from investors already established in Hungary.[4]

HIPA has supported nearly 300 successful investment projects between 2014 and 2017. These projects will create more than 58,000 new jobs with an investment volume of more than EUR 10 billion. The latest "Global Best To Invest" survey is based on data from 2017 and was published at the beginning of this month. Hungary was ranked among the top ten in three categories, and named as the best country for investment in the Eastern Europe and Central Asia region. It also achieved number one ranking for investment volume per capita.[5]The country was placed eighth in the global ranking based on the number of investment projects.[6]



Source: HIPA

[4]Budapest Business Journal, Hungary eighth in best to invest ranking, https://bbj.hu/analysis/hungary-eighth-in-best-to-invest-ranking_149142 (posjećeno: 28.09.2018.)
[5]Budapest Business Journal, HIPA Named Region's Best Investment Promotion Agency, https://bbj.hu/business/hipa-named-regions-best-investment-promotion-agency_149266 (posjećeno: 28.09.2018.)
[6]BudapestBusinessJournal, Hungary eighth in best to invest ranking, https://bbj.hu/analysis/hungary-eighth-in-best-to-invest-ranking_149142 (posjećeno: 28.09.2018.)

HIPA operates an internal database of investment sites in Hungary. One of the most comprehensive resources of its kind, the HIPA database is part of the information package for potential investors. The Investment Sites Database, which lists more than 1150 green- and brownfield sites, industrial parks and offices throughout Hungary, simplifies the task of matching investors' needs to potential locations. Searchable by size, location, available infrastructure and incentives, the database is an excellent starting point for any prospective investor.

3.2.1. HUNGARIAN INVESTMENT PROJECTS (HIP)

Attracting foreign investment is a priority for the Hungarian Government. The Government established the Hungarian Investment Promotion Agency (HIPA) with the aim of providing professional help to foreign companies intending to invest in Hungary. The Hungarian Investment Promotion Agency aims to link the potential financial and strategic investors with Hungarian projects in need of investment. HIPA handles a continuously growing database, which currently consists of 44 investment projects from several industrial sectors. This collection offers high quality, prescreened, legally transparent and ready-to-launch investment opportunities for potential investors. The average project budgets range from € 1.5 million to € 150 million. In case of any interest in the projects, HIPA can assist the investors in organizing meetings with project owners and give more detailed information on the selected sector and the certain project. HIPA also facilitates the project owners for successful preparation and presentation of their projects, by constant consultation and specialized education courses.

HIPA offers one-stop-shop management consultancy services that ensure tailor-made offers and information packages for companies interested to invest in Hungary. Potential investors get access to necessary information about available investment sites, incentives, labour market, business environment, local suppliers and more. HIPA helps to deliver strategic investment decisions by providing accurate information and relevant advice as well as mediate between government and business based on investor's inputs to ensure success.

3.3. INVESTING IN TOURISM OF HUNGARY

Besides incentives and tax reliefs, there are many other attractive facts that support the idea of investing in Hungarian tourism.

Generally speaking, sector of Tourism has grown vigorously over the past few years. According to the World Tourism Organization (UNWTO), it contributes with 10.4% to the global GDP, totalingaround 7 trillion dollars per year. They also estimate that the tourism industry grows 4% per year and generates 313 million direct and indirect jobs around the world, which makes 10.9% of total jobs in 2017. Global tourism has now experienced steady growth for over six decades, benefitting from the rise of globalization and technological advances that have led to cheaper airfares, while making it easier for people to plan and book their own travel. Throughout this period of sustained growth, tourism has demonstrated significant resilience in the face of a variety of challenges. In the last decade alone, these have ranged from the lingering impacts of the global economic crisis, geopolitical uncertainty, numerous terrorist attacks, natural disasters and other external shocks. Tourism demand historically tracks economic conditions closely, and since the downturn in 2009, global tourism has experienced more moderate year-on-year growth. This trend is expected to continue with international arrivals forecast to increase by ayearly average of 3.3% untilyear 2030. All of these facts and estimations are generally pointing to the direction that tourism is a lucrative industry worth investing in.

Throughout the last decade, tourism has been a steadily growing sector in Hungary as well. The total contribution of tourism to GDP was 8.0% in 2017.It is forecasted to rise by 3.4% in 2018, and to continue moving forward by 1.7% yearly until 2028. Since tourism accounts for 10,4% of BDP globally, there is still potential for improvement within the Hungarian tourism spectrum.

Hungary has several advantages in the region, due to both its location and its strategic situation. Thanks to its geographical location, it is one of the most significant transportation hubs in the region, making Hungary one of the most important logistics bases in Europe. Hungary has a centralized location on the continent whichis a huge advantage for the country. Both, the EU market of 500 million consumers, and the Russian, Ukrainian and Balkan markets of almost 210 million, are within easy reach. In terms of motorway density Hungary comes first in the region, and in terms of overall road density it is proudly third in Europe, after Belgium and Holland. Hungary is within two hours by air from most major European capitals, and provides a key link between Europe and the rapidly expanding markets of the East. Budapest Airport had 14.5% increase in passenger numbers and 13.4% increase in cargo volumes in 2017, serving millions of businesses and passengers. More than 125 direct flights are operated from Budapest to North-America, Middle East, China and almost all European countries.

Due to its great location, high amount of thermal waters, and excellent geothermal capacities, Hungary is the fifth strongest health and medical destination in the world. This creates a high demand for wellness spas, water based entertainment establishments and quality luxury hotels.

Hungarian workforce is well qualified, relatively cheaper than Western Europeans, but also hard-working, which is the foundation of a well-functioning and continuously developing country. Cost competitiveness and effectiveness, compared to other countries in Eastern Europe, are one of the deciding factors when considering investing in Hungary. Regarding multilingual education, Hungary is among the top 20 English-speaking countries in the world.[7]In 2012, Hungary was the 8th best country among the participants, while in 2015 it fell back to the 21th position. It achieved 19th place in 2017, so which means that there is no cause for concern as Hungary is still a better English-speaking country than the average. 57.86% of the Hungarian men and 59.42% of the Hungarian women speak English, which still leaves room for improvement which will positively impact Hungary's investment destination image.

Hungarians understand that investors value simplicity. Starting a businessand setting up a company in Hungary takes only a few days, including getting an international VAT number with no wait or extra requirements. Combined with a 9% corporate tax, this makes Hungary a prime business and investment destination, ideal for foreign nationals looking for a cost-effective solution or a convenient base in Europe.In addition to that, starting a company in Hungary requires

[7]Daily news Hungary, Hungary is among the top 20 english-speaking countries, https://dailynewshungary.com/hungary-is-among-the-top-english-speaking-countries/https://dailynewshungary.com/hungary-is-among-the-top-english-speaking-countries/ (posjećeno: 28.09.2018.)

low starting capital which does not need to be deposited. Also, Hungarian government provides easy visa and residency options for all nationalities.

As mentioned before, HIPA (Hungarian Investment Promotion Agency) has been voted the best investment promotion agency in the region because of its simplicity, professionalism and the ability to attract FDI towards Hungary. They are doing an excellent job in guiding, informing and helping all interested business parties that consider investing in any one of Hungary's sectors, including tourism.

4. INVESTMENT REALIZATION MODELS

4.1. DEBT FINANCING – COMMERCIAL BANK LOANS

Debt financing through commercial banks is the most common source of financing for tourism projects and investments. Debt financing does not give the lender ownership control, but the principal must be repaid with interest. Length of the loan, interest rates, security and other terms depend upon for what the loan is being used. Debt financing is usually divided in:

A. Short-term: Loans for short periods (30-180 days) usually made to cover temporary or seasonal needs for inventory or personnel. These are common for established businesses, but may be hard for a new business to obtain.
B. Medium to long term: These loans may be repaid over anywhere from 1 to 5 to even 20 years depending on how the funds are used. The source of repayment is the cash flow of the business. Typical uses are for equipment, fixed assets, etc. Most loans to start a small business will be of this type.

Research made by Scientific Annals of Economics and Business has shown that bank loans are the most common source of financing in Hungary.The role of loans among the financing sources of top 5,000 Hungarian firms according to revenues was significant and positive in the whole examined period.[8]

The Hungarian banking system includes 35 banks, 11 specialised credit institutions and 13 co-operative credit institutions. With regard to the dominant commercial banks in Hungary, both local subsidiaries of major foreign financial institutions (e.g. Erste, Raiffeisen, UniCredit, Intesa Sanpaolo,

[8]Katona K. Primary sources of corporate investment in Hungary (2018.), https://www.degruyter.com/downloadpdf/j/saeb.2017.64.issue-2/saeb-2017-0014/saeb-2017-0014.pdf (posjećeno: 29.09.2018.)

KBC) and Hungarian-owned banks are represented. The largest commercial bank in Hungary is the publicly listed OTP Bank Plc.

4.1.1. ADVANTAGES OF BANK LOANS

Following are some advantages of banks loans.

- PURCHASE WITHOUT LIQUIDITY
  A major goal of a bank loan is to lend to people who do not have ready cash. The scope of a bank loan is vast, and the borrower can borrow as per their capacity depending on their creditworthiness.
- DRIVER OF GROWTH
  Bank loans are major drivers of growth, especially for public and private sector companies. Very few companies may have enough cash flow for financing huge expansion. However, in today's fast-track economy, expansion is the only way to have sustainable profitability. This is where bank loans come into the picture.
- PROVIDES CAPITAL FOR DAILY OPERATIONS
  The banks have special loans that can help a company fund its day to day operational capital and cash cycle. The working capital bank loans and cash credit loans are major bank loans that are used for the purpose.
- FLEXIBILITY
  Bank loans provide an element of flexibility to the borrower, which can be very beneficial in long-term. The borrower can choose the duration of the loan and amount of EMI's, whereas the amount of loan and interest rates are negotiable. For example, if an individual takes home loan from the bank, he can decide if he wants to repay the loan in 5, 10 or 20 years.
- OWNERSHIP REMAINS WITH BORROWER
  With ownership perspective, bank loans can be a great source of funding for companies. If a company decides to raise funds, it has many alternatives such as issuing equity shares, raising private equity, including venture capital, etc. However, in all these methods the

company may have to lose some part of the ownership share. Whereas in a bank loan, the company can raise funds as well as keep the ownership.

4.1.2. DISADVANTAGES OF BANK LOANS

There are certain disadvantages of bank loans as follows:

- ADDITIONAL BURDEN ON COST OF GOODS
  One of the biggest disadvantages of bank loans is that the borrower pays way more than the purchase price of the product when he uses a loan to buy a product.
- SECURITY NEEDS AND CREDITWORTHINESS
  It is very difficult to obtain a bank loan unless an individual or a corporate has a sound credit score or valuable collateral. Banks are careful to lend money, and they only give loans to borrowers who have the ability and willingness to repay the loan. Small companies who are new to the business and have not taken any bank loans in the past find it even more difficult to obtain a bank loan.
- STRICT REPAYMENT SCHEDULE
  Bank prescribes a very strict repayment schedule to the borrower, which must be adhered to. Failure to do so may reduce borrower's credit score and future credibility. The stringency to stick to the repayment schedule sometimes creates a burden on the borrower.
- PREPAYMENT PENALTIES AND CHARGES
  Most banks charge borrowers on early repayment, which is a lose-lose situation for the borrower. Some financial institutions apply heavy prepayment penalties and charges. It is quite ideal for a prospective borrower to first check if the agreement of loan contains any prepayment penalties. If yes, the borrower should double check his need of a loan and the tenure for which he needs it.
- INTEREST RATE RISK / COST OF FUNDS
  Big businesses plan their ventures for long terms say 10 years, 20 years etc. For such big and long-term projects, the interest rates offered are normally floating rates. The viability of these projects is checked before they are started and there is a very important assumption of the cost of their funds throughout their project tenure. With floating rates,

this assumption becomes floating. Economic situations where the interest rates rise, the cost of funds would also rise and that can make these projects unviable.

4.2. EQUITY FINANCING

In its most basic form, equity financing results in the repayment of principal and/or return only if the venture produces sufficient funds/revenues for that purpose; hence the term risk capital. Equity financing will always require consideration of ownership, profit, benefit sharing, operational control, valuation, and exit strategies as important issues to be carefully evaluated. Although equity financing can cover a wide array of capital source types, there are, in general, several overall categories.

- FRIENDS & RELATIVES: For most start-up situations or early stage enterprises, capital is typically generated by persuading available friends or relatives to bankroll the venture. Although requiring less in the way of written business materials and perhaps more accessible, there are substantial risks beyond economic considerations which should be seriously evaluated, not the least of which may be disrupted relationships should the business not perform as expected. Ownership sharing may or may not be required.
- VENTURE CAPITAL/SBICS/INVESTMENT BANKING: This investment funding approach is typically characterized by specific, often demanding investment criteria and can require significant ownership sharing. Of the entire equity market for small businesses, venture funds represent less than 5 percent.
- ANGELS: Angels represent an informal market of individual investors and business persons/entrepreneurs who may or may not frequent the small business investment area. A solid business plan with professional support is usually required to achieve an investor comfort zone which also usually includes due diligence review. Risk evaluation and pricing are usually the major issue, as opposed to ownership sharing.

4.2.1. ADVANTAGES OF EQUITY FINANCING

Raising money for your business through equity financing can have many benefits, including:

- The funding is committed to your business and your intended projects. Investors only realize their investment if the business is doing well, meaning they have a vested interest in the business' success, ie its growth, profitability and increase in value.
- Business owners do not have to keep up with costs of servicing bank loans or debt finance, allowing them to use the capital for business activities.
- Outside investors expect the business to deliver value, helping business owners explore and execute growth ideas.
- Some business angels and venture capitalists can bring valuable skills, contacts and experience to your business. They can also assist with strategy and key decision making.
- Investors are often prepared to provide follow-up funding as the business grows.

4.2.2. DISADVANTAGES OF EQUITY FINANCING

However, there are drawbacks of equity financing too. It's worth considering that:

- Raising equity finance is demanding, costly and time consuming, and may take management focus away from the core business activities.
- Potential investors will seek comprehensive background information on you and your business. They will look carefully at past results and forecasts and will probe the management team. However, many businesses find this process useful, regardless of whether or not any fundraising is successful.
- Depending on the investor, business owners lose a certain amount of power to make management decisions.
- There can be legal and regulatory issues to comply with when raising finance, eg when promoting investments.[9]

[9]NIBUSINESSINFO.CO.UK, Advantages and disadvantages of equity finance, https://www.nibusinessinfo.co.uk/content/advantages-and-disadvantages-equity-finance (posjećeno: 20.09.2018.)

4.3. EU FINANCIAL ASSISTANCE PROGRAMS

EU financial assistance programs provide a wide array of grants, loans, loan guarantees and co-financing for feasibility studies and projects in a number of key sectors (e.g., environmental, transportation, energy, telecommunications, tourism, public health). The EU supports economic development projects within its member states, as well as EU-wide "economic integration" projects that cross both internal and external EU borders. In addition, the EU provides assistance to candidate and neighboring countries. The EU provides project financing through grants from the EU budget and loans from the European Investment Bank.

4.3.1. EU STRUCTURAL AND INVESTMENT FUNDS (ESIF)

EU Structural Funds, including the European Regional Development Fund, were created in 1975 to assist economically depressed regions of the European Union that required industrial restructuring. For the period 2014 – 2020, the EU has earmarked 352 billion euros for projects under the EU's cohesion policy. In addition to funding economic development projects proposed by member states or local authorities, EU Structural and Investment Funds (ESIF) also support specialized projects promoting EU environmental and socioeconomic objectives.

4.3.2. THE COHESION FUND

The Cohesion Fund is another instrument of the EU's cohesion policy. Its 63 billion euro (2014-2020) budget will fund projects in two areas: Trans-European Network projects in transportation, infrastructure; and environmental projects, including areas related to sustainable development and energy for projects with environmental benefits.

The fund will support projects in Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. In addition, Spain is entitled to phase-out funds due to having a GDP per capita lower than the EU-15 average.

4.3. OTHER EU GRANTS FOR MEMBER STATES

Another set of sector-specific grants offer assistance to EU member states in the fields of science, technology, communications, energy, security, environmental protection, education, training and research. Tenders related to these grants are posted on the various websites of the directorates-generals of the European Commission. Conditions for participation are strict and participation is usually restricted to EU firms or tied to EU content. Information pertaining to each of these programs can be found at: http://ec.europa.eu/grants/index_en.htm

4.3.4. LOANS FROM THE EUROPEAN INVESTMENT BANK

Headquartered in Luxembourg, the European Investment Bank (EIB) is the financing arm of the European Union. Since its creation in 1958, the EIB has been a key player in building Europe. As a non-profit banking institution, the EIB assesses reviews and monitors projects, and offers cost-competitive, long-term lending. Best known for its project financial and economic analysis, the EIB makes loans to both private and public borrowers for projects supporting four key areas: innovation and skills, access to finance for smaller businesses, climate action, and strategic infrastructure.

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