

EUROPEAN CNR STUDIES

Road Freight Transport (RFT) in Hungary - summary

11 September 2013 version

One of the 4 Eastern European tigers, Hungary has long been regarded as the most stable country in the region as a result of its economic power which is based on a relatively well-developed financial system coupled with advanced economic reforms. Yet, it seems to have been impacted by the economic crisis in a worse manner than its close neighbours, and is getting more and more disconnected from the group of emerging countries with high economic growth.

Does the Hungarian RFT, which was growing fast as from its accession to the EU, also suffer from the country's general macroeconomic environment, or did it find a successful exit from the crisis by benefiting from the dynamism of the other countries in the region?

To answer this question and update Hungary's RFT dossier, CNR carried out on the spot a field study between October 2012 and June 2013. The study aims to present the presumed special features of the country and its flag, by developing its strengths and weaknesses via a detailed analysis of the operating conditions and costs in the sector, with the economic conditions that prevailed in 2012.

The full study carried out in partnership with our local experts from the *Moreus, Grzegorz Grzegory & Erika Petrleňicova* consulting firm, transport specialists in the region, is available on CNR's webpage: www.cnr.fr heading: Publications CNR Europe. This document offers a synthesis that underlines the capital points and compares them with French RFT. For any further information, please contact Mr. Alex Ugurlu at the CNR, a-ugurlu@cnr.fr.

Economic framework and transport infrastructures

With almost 10 million inhabitants, Hungary has a GDP of 108 billion Euros. Since the early 2000's, the country has benefited from a significant flow of foreign investments, especially thanks to earlier stabilisation of its economy compared to the other countries in the region. At the same time, the State invested in infrastructure to the detriment of public finance, to increase the country's attractiveness for foreign investors. Facing the increasing public debt, Hungary adopted and implemented a convergence project in 2006 so as to meet Maastricht criteria. However, this plan could not be met because of the 2008-2009 financial and economic crisis. As a result of IMF's financial assistance, the country quickly recovered positive but fragile growth rates in 2010 and 2011. In 2012, the long-awaited sustained economic recovery had yet to materialise. The positive dynamic triggered in 2011 did not have the intended effect on the Hungarian economy.

With its economy based on export, Hungary is dependent on the European economic situation. The latest available foreign trade figures show that the trade situation improved by the end of 2012, which should be reflected in the growth rates by the end of 2013. The current GDP and foreign trade levels remain flat at a pre-crisis level.

In addition to the growth in the service sector, the country also keeps a strong and dynamic industrial sector, which accounts for one-third of the GDP. As from the 2000's, its development was made possible thanks to the foreign direct investments (FDI). Following a rapid worsening of the flows at the beginning of the crisis, FDI growth has slowly picked up. It has to be noted that, for a number of years, FDIs' destinations have changed as well. They are more and more often targeted toward the production of luxury vehicles, renewable energy systems, luxury tourism and information technologies, instead of those traditional sectors of textile and

agrifood. The country's beneficial tax system, coupled with its geographical location, seem to be the major attractions for FDIs.

As for infrastructure, Hungary is probably the country from the former Eastern bloc that has the most complete equipment. Between 2007 and 2013 the country doubled its motorway network, partly with the assistance of the European Union. Motorways are a significant driver of growth in this country where inland waterway transport is virtually nonexistent and rail transport is underdeveloped because of both lack of investment and a challenging geography.

As for air transport, business conditions do not seem to be very positive. As the domestic Company, Malev, was impacted by the upsurge in kerosene prices and the emergence of low-cost carriers, it did not survive the crisis and was declared bankrupt in early 2012. Since then, the air traffic volume has dropped sharply and no other air carrier has yet been able to replace the slots made available by Malev.

Despite its manifest assets, Hungary is still in a vulnerable economic situation. For another few years, its economy will not be able to rely on increased household consumption: indeed, they have carried massive foreign currency debts, more especially Swiss Francs, the price of which has risen steadily ever since 2008 vs. the Hungarian forint.

Organisation and evolution of the RFT sector in Hungary

In Hungary there are reportedly almost 16,000 haulage Companies, consisting in a fleet of over 60,000 vehicles, three-quarters of which are thought to be assigned to international carriage only. In the RFT sector, two professional bodies, MKFE (Hungarian Haulage Association) and NiT (National Federation of Private Hauliers) represent the RFT Companies for hire and reward.

Between 2004 and 2008, the rapid increase of goods carried by the Hungarian flag created a growing need for labour in the sector. The departure abroad, especially to Austria, of several thousands of drivers that were attracted by higher pay did not help resolve the issue. But both the stagnation of the sector since 2007 and the general crisis in Europe are believed to have balanced the labour market.

The RFT sector is structurally oriented toward international operations. The country's domestic market is limited to an unavoidable transit corridor between West and East. The Hungarian domestic market only accounts for 30% tons/kilometre and its volume is stagnating. As for the international market, its share of the Hungarian flag's activity has grown from year to year. Since the beginning of the economic crisis, international activity has replaced that lost within the country.

RFT* evolution in France and Hungary						
Transport Total						million of t-km
	2006	2007	2008	2009	2010	2011
France	211,445	219,212	206,304	173,621	182,193	185,685
Hungary	30,479	35,805	35,759	35,373	33,721	34,529
Domestic Transport						million of t-km
	2006	2007	2008	2009	2010	2011
France	182,753	191,388	181,879	156,021	164,325	168,242
Hungary	12,425	13,186	13,043	12,171	11,329	10,534
International Transport						million of t-km
	2006	2007	2008	2009	2010	2011
France	28,692	27,824	24,425	17,600	17,868	17,443
Hungary	18,054	22,619	22,716	23,203	22,392	23,995

*transport in EU + Norway + Switzerland + Liechtenstein

Source : Eurostat

Compared to France, the Hungarian flag's domestic activity only accounts for a little more than 6% of the French flag's domestic activity. On the other hand, its international activity is almost 40% higher than that of France. This result ranks Hungary's flag 7th right behind Slovakia according to their international activity. As for Companies, the head office of the biggest international haulier in Eastern Europe, Waberer's, is located in Budapest.

Operating conditions and costs

Just like its other recent international surveys, CNR has carried out the Hungarian cost analysis and operating conditions through two types of interviews:

- On the one hand, face to face with RFT Companies to understand their mechanisms and assess their operating costs,
- On the other hand, with international drivers in motorway truck parks at the French-Spanish border, about their incomes and working conditions.

The following table summarises the results obtained via the interviews and compares them to the French costs derived from CNR's annual 40-Ton Long-Distance survey.

Comparison of operating conditions and costs excluding structural costs, for a 40-tonne HGV 2012 values			
	unit	France	Hungary
Yearly mileage of vehicle	km	112,700	140,879
Number of operating days	days/yr	230	250
Semitrailer/tractor ratio		1.36	1.17
Driver cost	€/yr	44,616	18,957
Driver/tractor ratio		1.07	1.05
Yearly cost of vehicle financing and possession	€/yr	13,577	14,642
Average consumption per 100 km	litres	33.9	31.9
fuel price, 2012 average (1)	€/litre	1.120	1.123
Fuel cost	€/yr	42,794	50,468
Tyres	€/yr	3,381	2,750
Maintenance-repair	€/yr	8,227	3,909
Tolls	€/yr	8,644	14,000
Insurance (vehicle only)	€/yr	2,639	2,770
Axle tax and/or other vehicle taxes	€/yr	516	954
Synthesis - cost price (excluding structural costs)		127,517	109,398
Cost of one kilometer	€/km	1.13	0.78
Base 100 France		100	69

(1) after partial recovery of TICPE in France

Source : CNR Europe

This table analysis shows that Hungary has all the typical hallmarks of an Eastern European flag, as CNR could observe in Slovakia or Poland. Vehicle mileage is almost 20% higher than in France, which enables the Hungarian hauliers to ensure economies of scale on the cost of vehicle retention. The sector has invested in high-end HGVs as they are believed to be more reliable. As for HGV financing, the hauliers suffer from relatively high interest rates. Yet, they tend to opt for short-term loan or leasing (3 to 4 years) with a significant 20% down payment in general. On the other hand, the concentration of international activity reduces the semitrailer/tractor ratio by removing most special semitrailers from the Hungarian fleet. Concerning organisation, the HGV is usually assigned to only one driver who takes care of, and is fully responsible for it.

Other fixed costs such as insurance and the axle tax are more costly in Hungary than in France. As for variable costs, investment in fuel-efficient, high-end HGVs decreases consumption, the price of which is similar in both countries after refund of local excise duties. Tyre budget is held at a low level in Hungary further to both successive retreading practices and the purchase of cheaper tyres, either Asian or local. The cost of maintenance and repair is half cheaper due to low labour cost and in-house workshops in most RFT Companies. The cost of tolls is significant, especially because of HGV mileage and high rates in most countries they are driven across, such as Germany, Switzerland or Austria.

The operating costs analysis of a Hungarian HGV shows that, apart from structural costs, the cost per kilometre adds up to 80 Eurocents i.e. 30% cheaper than in France.

Driver employment and cost conditions

Just like the other states that joined the EU in 2004, Hungary had previously adopted the Community acquis. Further European texts have also been transposed without any significant changes. A priori, the Hungarians are subject to the same community rules as their European counterparts.

At local level, as the labour market has increasingly been ruled by employers since 2008, the drivers find it difficult to profit from all social benefits to which they are entitled. Most drivers state they cannot take all of their pay leave, or else they are forced to take it in winter. Salary calculation based on mileage, which was declining before the crisis according to the drivers, is coming up again and over 50% of them state they are paid by the kilometre. This calculation method is translated on payslips by dummy items (travel expenses, ecodriving bonus) which are exempted from tax or charges. The optional collective agreement, which came into force in early 2011 and provided for significant driver pay rise, was suspended in 2012 and replaced in July 2013 by a less generous version.

As for the government, they try to support the RFT sector via two measures. The first is partial refund of the excise duties. The Hungarian hauliers may collect part of the excise duties, which have increased considerably since 2010. The refund system implemented in 2011 provides a payback of 17 HUF/litre (0.0596 €/litre) for fuel purchase in 2012, thus bringing the net cost of excise duties to almost the European floor price of 0.33 €/litre vs. 0.3919 €/litre in France.

The second measure relates to driver remuneration. Indeed, the granting of an ecodriving bonus which is free of charges or income tax is allowed by the administration, on the basis of fuel savings theoretically obtained by drivers in relation to an average consumption calculated by an arm of the national development ministry. This system, which provides for a bonus of up to 100,000 HUF/month (333.33 €/month), enables employers to replace part of the basic gross salary by this ecological premium so as to reduce social contributions. Thus, payslips show that the gross salary only accounts for one-third of the remuneration, while the remainder is supplemented by travel allowances and the ecodriving bonus. Ultimately, according to CNR estimates, the cost of one hour's drive would appear to be 66% cheaper in Hungary than in France.

Comparison between the cost of drivers in France and in Hungary, 2012 values			
	unit	France	Hungary
Gross salary (miscellaneous bonuses and overtime included)	€/yr	27,300	6,400
Employer contributions (after deduction of state aids)	%	31.1%	28.5%
Employer contributions in absolute terms	€/yr	8,490	1,824
Travel expenses	€/yr	8,826	6,900
Eco-drive bonus for Hungary only	€/yr		3,833
Annual cost total	€/yr	44,616	18,957
Number of actual working days per year	days/yr	216	238
Driving time per year	hours/yr	1,572	1,980
Annual mileage		105,327	134,170
Cost of one hour's drive	€/hour	28.38	9.57
Base 100 France		100	34
Cost per kilometer	€/km	0.42	0.14
Base 100 France		100	33

Source : CNR Europe

In conclusion, although the costs of the Hungarian RFT Companies are undoubtedly lesser than in France, they face competition from the other Eastern European flags and attempt by all means possible to lower their costs. Some major Hungarian hauliers with only 2 to 3% margins have already closed up shop since 2008. Direct and indirect state support are used to competing against the Polish, Slovakian or Czech flags, but will they be sufficient to withstand the Romanian and Bulgarian flags?