

First in growth: Optical illusion?

*Hungarian Car Dealer
Survey 2013*



About the survey

PwC Hungary, a member firm of the world's leading professional services network, has prepared its survey report on the Hungarian automotive industry for the fifth time. The survey was conducted online among Hungarian car dealers, between 22 January and 4 February 2013.

The questionnaire took about 20 minutes to complete, and polled car dealers about changes during the past 12 months, with a view to the general business environment, regulatory and market factors, and the day-to-day operation of dealerships. Our report includes a detailed analysis of the impact of the 2013 changes in the automotive industry, and future prospects.

The responses given in the completed and submitted questionnaires represent about a third of the new car sales by Hungarian businesses engaged in the trade of new motor vehicles, and cover the most-traded brands.

Dear Reader,

This is PwC Hungary's fifth survey report on the Hungarian automotive industry. In addition to the topics covered in previous surveys, and in response to the current market situation, our present survey also deals with the effects of early repayment of foreign-currency-denominated mortgages and the effects of the "re-export" phenomenon on the sales of new cars. This year's survey is also aimed at assessing the anticipated and the past impacts of the tax changes, of which, perhaps, the changes in the financial transaction tax, value added tax and the local business tax are the most significant. Our present survey deals with the new results of curbing the black economy and traders' opinions on our further proposals.

At first glance the 2012 statistics on new car registrations in the EU seem impressive in the eyes of the average Hungarian: **Hungary is in the first place in respect of the annual changes, showing 18% growth to 53,000 new car registrations in 2012** compared to the 45,000 registrations in 2011¹. But car dealers see the situation differently, due to the international outlook, the calculated equilibrium constant and the distortion effects.

In 2012, 12.1 million new cars were registered in the 27 EU countries, a slight 8% decline compared to the previous year's 13.1 million. A closer look at the

statistics makes it clear that the lion's share of this decline can be explained by the data from the troubled Southern European economies, especially Italy, Spain, Portugal, Greece and France, where 860 thousand fewer new cars were registered in total. The French and Italian decline is particularly significant – both more than three hundred thousand –, which was bad news for the brands and manufacturers that traditionally target those markets. Among "the greats" the decline of 100,000 on the German market was balanced with the slightly bigger increase on the UK market.²

The above numbers clearly illustrate that the new car registrations in Hungary should not be compared to the big or middle-sized markets. The number of new car registrations was 69,000 in Slovakia, in Poland 273,000 and in Romania 66,000, which countries' markets are more comparable to the Hungarian market. By comparison, this breaks down to 13 cars sold per 1000 people in Slovakia, 7 in Poland, 3 in Romania, and 5 in Hungary. It can be seen that there are poorer performing countries, but the sales are higher in the similarly developed Slovakia and Poland.³

But where is the market equilibrium? Based on the fact that there are three million passenger cars in use in Hungary, and considering a 20- to 25-year replacement period, new car registrations should **stabilize within**

the range of 120-150 thousand in the long term. In a more sophisticated model, expecting some level of convergence or development, and assuming that the Hungarian "car population density" – which is currently 30 cars per 100 people, roughly the same as in Slovakia, but significantly lower than the 45 in Poland – will likely move closer to the figures of more developed countries, car registrations should climb up to the range of 160–190 thousand. This still seems a rather distant prospect. The conclusion is nevertheless clear: as the current level of registrations is significantly below the equilibrium level, the quite prestigious rank above is **primarily due to the low base data**.³

A single peak on the other hand raises the question of whether the data contain any one-off changes or distortions. Delayed registration (due to the decrease of the registration tax at the beginning of 2012) of new cars bought at the end of 2011 is a good example of the former. But this means **delayed registration for one to two thousand cars only**.

The "re-export" phenomenon – namely when the dealer imports the car to Hungary, registers it, but later (after unregistering the car in Hungary) sells it on the market of another country – can be evaluated as statistical distortion. The driver of this phenomenon is mainly the regionally different pricing policy of the



manufacturers, but it is also influenced by foreign exchange rates, the discounts available for bigger orders or the reported better market share. **Dealers estimate the number of later re-exported cars from the new car registrations at 7,600**, which is quite significant, constituting **almost 15% of the total new car registrations**.

The Hungarian market differs from the EU average in terms of brand distribution. In the EU, from the brands with higher level of registration only Hyundai and Kia were able to increase the number of registrations by 9% and 14% respectively, while other brands reported a decline. In Hungary – compared to the previous year – the biggest growth was achieved by Opel, Suzuki and Fiat, which brands declined by around 15% in the EU, followed by Dacia, Nissan, Skoda and Kia in the order of registration growth.⁴

According to the car dealers the legislative changes entering into force in 2012 had no particular impact. Our survey shows that the deductibility of the VAT calculated from the rental of passenger cars did not cause a shift to rental and leasing. **The decrease in registration tax is only slightly perceptible (if at all) in the prices of new cars**, bringing only an average 3% decrease in new car prices. On the other hand, the decrease had a significant effect on the import of used cars, which increased from 31,312 in 2011 to 53,533 in 2012.⁵ The impact of the newly introduced rules on the **mandatory salary increase** is hard to evaluate: while in 2011 61% of the participating car dealers stated that they were forced to make redundancies, in 2012 this number was 57%. As the fact that the number of registrations has grown since 2011, the question is whether the redundancy in 2012 is due to the bad performance of the previous years or the effect of the mandatory salary increase.

¹ Source: www.autoszektor.hu, "Car registration data in Hungary," published 4 January 2013 based on data provided by Datahouse Kft. and KEKHH.

² Source: www.acea.be, New car registrations in Europe, published 6 January 2013

³ Own calculation based on the data published by ACEA and Autószeaktor

⁴ Source: www.acea.be, "New car registrations in Europe," published 6 January 2013.

⁵ Source: http://www.figyelo.hu/cikkek/383447_weltauto_az_import_autok_rontjak_a_hazai_gepjarmuallomany_atlageletkorat, published 21 January 2013.



Among the changes, the way dealers view the impact of **early repayments** is particularly interesting. The dealers determined the **decrease in the level of available financing** as one of the reasons of the changes in their financial situation, and they pointed out the decreasing level of savings in 2012 as a long-term issue. According to the survey, **63% of the dealers believe that early repayment in 2011-12 will continue to have an effect on the number of sales for at least a couple of years**, or even longer. In this regard it should be noted that the public has profited around 370 billion forints from the exchange at a reduced rate, which in the long term should balance the sudden short-term decrease in savings.

The answers about the changes in 2013 are rather extreme. The majority of respondents (86%) found the **deductibility of 50% of the VAT on repair services to be an important milestone in the fight against the black economy**. On the other side of the coin are the tax changes. Dealers estimated that the introduction of the **financial transaction tax brought an average 3 million forints cost increase**. Expectations are that the changes to local business tax – introduced concurrently with the phasing out of the retailers’ special tax – will affect 43% of the respondents.

Cash sales remain dominant: according to car dealers, 65% of their sales revenue originates from cash sales. Based on the responses, the average price of cars sold was 4.4 million forints, which also shows a slight increase compared to last year. The importance of the profit margin on car sales has grown within the profit sources compared to the previous surveys.

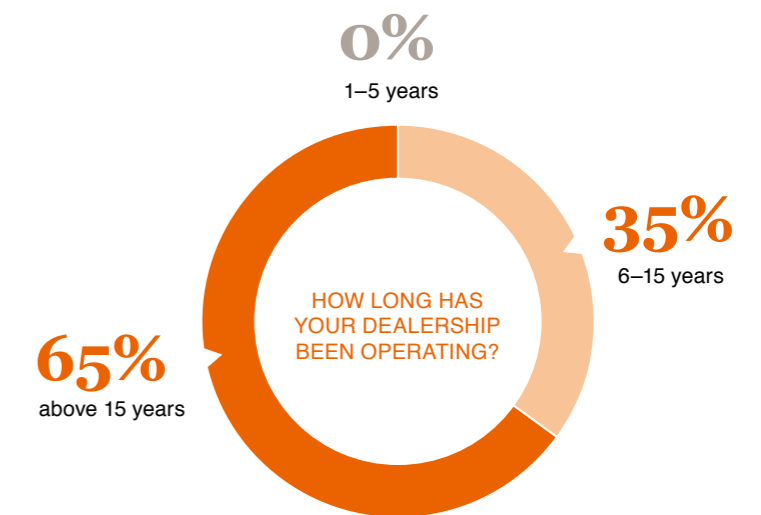
Similar to the results of previous years, the dealers gave a clear answer about the negative impacts of the black economy: **93% of the respondents said that their dealership was adversely affected by the black economy**. Seventy-one percent of the dealers justify the presence of the black economy with the high level of taxes, while 46% stated that this behaviour is what the customers expect in order to keep the prices low. Sixty-eight percent of the dealers named setting up mandatory databases to record the service history of cars as a solution, while 57% of the respondents would also prefer more frequent inspections.

Future expectations are similar to those in previous years. Only 41% of the respondents expect some growth in 2013, but this ratio is 86% for 2014–15, while all dealers predict growth for the period starting in 2016 and 56% consider it as a very likely scenario. The dealers expect around 40–70 thousand new cars being registered in 2013, the average expectation is 56 thousand, which still shows moderate optimism.

Survey participants

The majority (42%) of the dealers taking part in the survey for 2012 operated either in Budapest or in Pest County, and 17% operated in the Transdanubian region, which has the second highest number of dealerships. Of the respondents, 81% were associated with only one manufacturer; most of them are bound by contract to a national distributor.

The majority of respondents have been present on the Hungarian market for more than five years, and 65% for more than fifteen years. The **average period of business operation** for all respondents is **17 years**. Responses show that it is extremely difficult to enter the market as a new player in the current economic situation. According to a survey by GÉMOSZ, the number of dealerships decreased from 1,100 to 467 within three years, while the number of owners is estimated to be only 312.⁶



Forty-nine percent of respondents operated only one showroom, 35% operated two or three, while 16% had four or more. On average, dealers taking part in the survey operated two showrooms.

The most traded brands among car dealers were Skoda, Volkswagen, Hyundai and Suzuki. The emergence of the Hyundai is not surprising, since last year’s survey showed that most dealers wanted to extend their brand portfolios with Hyundai for 2012 and – together with Kia – Hyundai had one of the highest numbers among European car registrations.

⁶ Source: Hungarian Association of Automobile Dealers (GÉMOSZ)



Market situation: international outlook, sales and early repayment

In 2012, 53,059 new cars were registered, which shows significant improvement compared to the 45,106 registered new cars in 2011. **This is an 18% increase, which puts Hungary into the leading position in the European Union.** In total, 12.1 million passenger cars were registered in the EU in 2012, which represents an 8% decline from 2011. The Southern European countries with obvious financial difficulties, namely Italy, Greece, Portugal and Spain, are responsible for a decline of more than 500,000 registrations, and therefore are accountable for half of the EU downturn.

Early repayment in numbers⁷

The process of the early repayment of mortgage loans at preferential exchange rates ended on 29 February 2012. According to the final statistics, around 170 thousand residential loans have been repaid with a total value of **1,335 billion forints**. Considering the average value of repayments it can be determined that the extent of the repaid mortgage loans was **986 billion forints**, calculated at the preferential rates. This means that households “saved” **369 billion forints** due to the early repayment on preferential rates.

Since the total residential repayment was 1,335 billion forints, and the banks’ loan portfolio decreased by “only” 1,041 billion forints, those who made the early repayment using forint-based loans had to borrow a further 314 billion forints. Based on the above, households used **672 billion forints** from their savings to make early repayment.

⁷ Source of the text box: PSZÁF – Quick analysis of the early repayment, published 12 March 2012

Among the car “superpowers” both Italy and France suffered a decrease of more than 300,000, while the registrations declined by around 100,000 in Germany. A decrease by 140,000 registrations in the Benelux countries also contributed to the current unfavourable situation. Only the UK was able to show some increase within these bigger markets, with an annual growth of 100,000 registrations.⁸

Almost all manufacturers suffered major, double digit downturn in the EU market, e.g. Fiat, Peugeot, Citroen and Renault – operating in the Italian and French markets – and Opel, Ford, Suzuki and Mazda as well. VW, BMW and Daimler experienced a slight decrease (1–5%), while Volvo, Nissan and Honda a moderate decline (5–10%) in registrations. Only Hyundai and Kia could show increase, by 9.4% and 14.1% respectively.⁸

The Hungarian market differs from the EU average as regards brand distribution. In Hungary – compared to the previous year – the biggest growth was achieved by Opel, Suzuki and Fiat, brands which declined by around 15% in the EU, followed by Dacia, Nissan, Skoda and Kia in the order of registration growth. However, it is not worthwhile to draw long-term conclusions, as registration data are below the equilibrium level.⁹

It can easily be calculated from the registration figures that **it would take as long as 56 years for the estimated 3 million cars in Hungary to be exchanged for new ones**. The fact that this value shows a slight improvement compared to last year’s figure (60 years) is promising, but we still lag behind Slovakia at 24 years, Slovenia at 22 years, while the seven years in Luxembourg is not even a rational base for comparison. The economic situation from this perspective is worse in some nearby countries; we are ahead of Bulgaria

⁸ Source: www.acea.be, “New car registrations in Europe,” published 6 January 2013

⁹ Source: www.autoszektor.hu, “Car registration data in Hungary”, published: 4 January 2013 based on data provided by Datahouse Kft. and KEKKH.

with its 135 years, Romania, with a total replacement period of 65 years, and Poland with 63 years.¹⁰

We wanted to find out where the market equilibrium is in this respect. Considering a 20- to 25-year replacement period, new car registrations should stabilize within the range of 120–125 thousand in the long term. If some level of convergence or development is to be expected, new car registrations should climb up to the 160–190 thousand range. With 30 cars per 100 people, Hungary is among the lowest ranked. This is similar to the Slovakian figures, but significantly lower than the Polish figure (45 cars). Luxembourg is the clear record holder with 70 cars per 100 people. On the other hand, we are ahead of Romania, where there are 20 cars per 100 people. Based on the above, it is not surprising that the number of car registrations per 1000 people is the highest in Luxembourg, (almost 100). Austria, Belgium, Germany and the United Kingdom are also in a favourable position with an average of 40 car registrations per 1000 people. **In Hungary – similar to the Greek data – there are only five car registrations per 1000 people.**¹⁰

Hungary’s growth takes first place in Europe, but the importance of the details cannot be overrated. It should be investigated whether the Hungarian car registration figures contain any distortions. The “re-export” phenomenon – namely when the dealer exports the car to Hungary, registers it, but later (after unregistering the car in Hungary) sells it on the market of another country – can be evaluated as statistical distortion. The driver of the phenomenon is mainly the regionally different pricing policy of the manufacturers, but it is also influenced by foreign exchange rates, the discounts available for bigger orders or the reported better market share. **Dealers estimate**

¹⁰ Source: own calculation, www.acea.be, “New car registrations in Europe,” published 6 January 2013 and the 2010 data of www.epp.eurostat.ec.europa.eu, (motorisation rate)

EUROPEAN OUTLOOK

Country	2012 – number of new car registrations	2011 – number of new car registrations	Change %	Estimated population	Ratio of new car buyers	Total estimated passenger cars	Passenger cars per 100 person	Replacement period of passenger cars	New car registrations per 1000 person
Austria	336,010	356,145	-5.7	8,389,800	4.0%	4,429,814	53	13	40
Belgium	486,737	572,211	-14.9	10,879,150	4.5%	5,243,750	48	11	45
Bulgaria	19,419	19,122	+1.6	7,534,300	0.3%	2,614,402	35	135	3
Cyprus	10,967	14,544	-24.6	803,750	1.4%	462,156	58	42	14
Czech Republic	174,009	173,282	+0.4	10,519,800	1.7%	4,491,955	43	26	17
Denmark	170,763	170,036	+0.4	5,545,000	3.1%	2,157,005	39	13	31
Estonia	17,267	15,350	+12.5	1,340,150	1.3%	552,142	41	32	13
Finland	111,251	126,130	-11.8	5,363,350	2.1%	2,869,392	54	26	21
France	1,898,760	2,204,229	-13.9	64,895,800	2.9%	32,577,692	50	17	29
Germany	3,082,504	3,173,634	-2.9	81,776,950	3.8%	42,278,683	52	14	38
Greece	58,482	97,682	-40.1	11,317,350	0.5%	5,217,298	46	89	5
Hungary	53,059	45,106	+17.6	10,000,150	0.5%	2,990,045	30	56	5
Ireland	79,498	89,878	-11.5	4,474,050	1.8%	1,896,997	42	24	18
Italy	1,402,089	1,749,739	-19.9	60,483,350	2.3%	36,652,910	61	26	23
Latvia	10,665	10,980	-2.9	2,239,000	0.5%	640,354	29	60	5
Lithuania	12,170	13,223	-8.0	3,286,800	0.4%	1,712,423	52	141	4
Luxembourg	50,398	49,881	+1.0	506,950	9.9%	334,080	66	7	99
Netherlands	502,528	555,843	-9.6	16,615,000	3.0%	7,509,980	45	15	30
Poland	273,589	277,427	-1.4	38,183,650	0.7%	17,220,826	45	63	7
Portugal	95,290	153,404	-37.9	10,637,350	0.9%	4,797,445	45	50	9
Romania	66,436	81,709	-18.7	21,438,000	0.3%	4,330,476	20	65	3
Slovakia	69,268	68,203	+1.6	5,430,100	1.3%	1,667,041	31	24	13
Slovenia	48,648	58,417	-16.7	2,048,600	2.4%	1,061,175	52	22	24
Spain	699,589	808,051	-13.4	46,070,950	1.5%	22,114,056	48	32	15
Sweden	279,899	304,984	-8.2	9,378,150	3.0%	4,313,949	46	15	30
United Kingdom	2,044,609	1,941,253	+5.3	62,231,350	3.3%	29,248,735	47	14	33
EUROPEAN UNION (EU27)*	12,053,904	13,130,466	-8.2	501,804,900	2.4%	239,360,937	48	20	24

(* Data for Malta currently not available.)

Source: Own calculation using data from www.acea.be, “New car registrations in Europe,” published 6 January 2013, and the 2010 data of www.epp.eurostat.ec.europa.eu (motorisation rate, population in the EU27)

the number of later re-exported cars from the new car registrations at **7,600**, which is quite significant, constituting **almost 15% of total new car registrations**. If we compare this number with the car registration statistics, it can be seen that around 45,000 cars were registered for the domestic market in 2012.

Based on the responses, the average price of cars sold was **4.4 million forints**, and a significant portion, **28% of customers**, purchased a car with standard equipment or with one or two optional extras.

The opportunity for early repayment of mortgages denominated in foreign currency clearly influenced the industry due to diminished household savings and further restraints on the banks’ lending activities. **Households used around 672 billion forints from their savings for early repayment, which is the price of 130-150 thousand new cars**. Of course, this is only an arbitrary comparison, but it yields a meaningful number. Although household savings have been reduced, the public has profited around 370 billion forints from the exchange at a reduced rate, which in the long term should have

positive effects (the amount households will have to pay back will be reduced by this amount over the 10- to 20-year loan periods)¹¹. According to the survey, 41% of the dealers believe that the drastic decrease in savings will have an effect on the industry for at least several years, while 22% estimate it will last even longer.

¹¹ In this case, of course, we cannot use exact calculations because the amount actually saved depends on the after-repayment trends of the interest and exchange rates – however, we believe that this inaccuracy does not change the fact that this is a significant decrease in households’ burden, which may serve as the basis for future purchases.

Financial situation

During 2012, 90% of dealerships were forced to make further cost cuts, which affected all business areas and were done in various forms. Besides decreasing marketing costs, dealers had to resort to the most painful measures, such as decreasing the number of employees and reducing overhead costs.

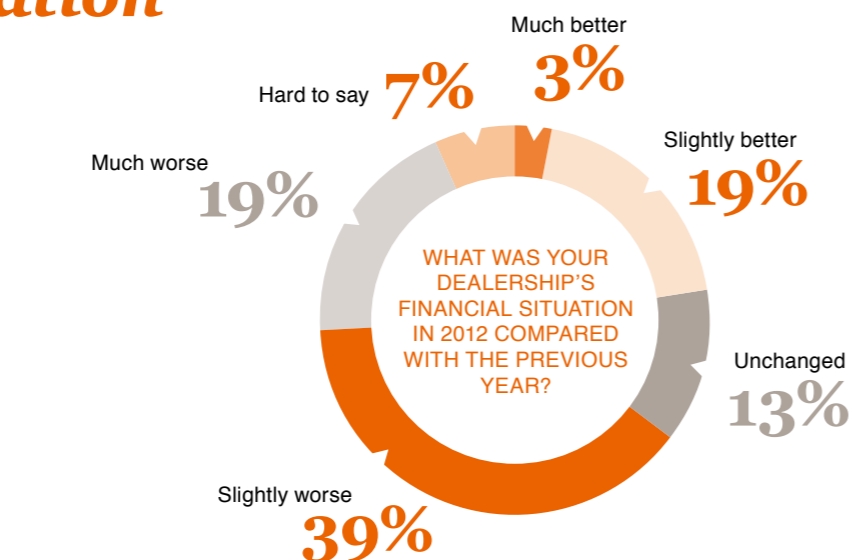
Compared to 2011, it is a significant change that dealers derived 44% of their profits from repair activities, which was 55% in 2012. In line with the above, the main source of income has shifted from repair activities to car sales. The profit margin on new car sales is becoming more and more important in the industry, changing the trends observed before the financial crisis, where the main source of profit was the income from financing activities, and the contribution of profit margin was relatively low. Commissions received from financial intermediaries are also marginal, less than 5% of the respondents' profit.

Cash purchases continued to make up a significant part (on average 65%) of dealers' revenues in 2012, while long-term rental and leasing accounted for only 7% of the dealers' revenues. **On average, customers who purchased a car on credit paid 20% of the full amount in cash.**

Only 28% of dealers pay for the cars to be sold on purchase, which shows a decrease compared to the previous year. It is obvious from the responses that dealers tried to take advantage of every possibility to reduce their costs and rationalise their business.

Taking shrinking lending activities into account, it seems reasonable that less than 10% of the dealers offered the products of financing institutions as "special services intermediaries," 52% as "multiple agents", and 41% as "tied agents".

In 2012, 57% of respondents reported a decrease in employee headcount, which was 61% in 2011. This may be surprising in the light of the increasing



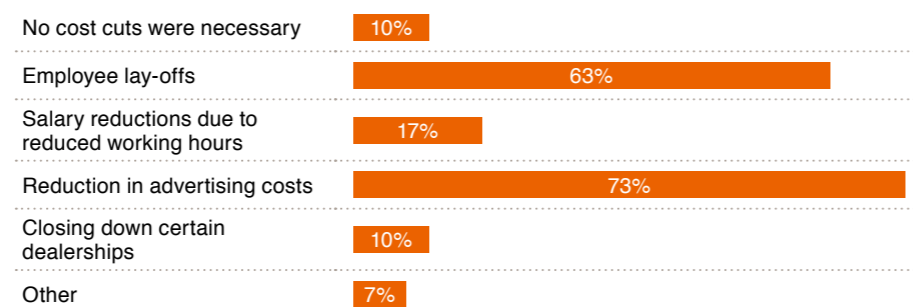
number of car registrations. However, the decrease in employee headcount can be explained by the impact of the mandatory salary increase, to some extent the delayed redundancy decisions, or the uneven sales distribution, where the less successful dealers had to lay off further employees.

In order to increase their market presence 56% of the respondents are engaged in marketing activities. Online

advertising is used by the majority (67%) of the dealers, while the popularity of TV, radio ads, flyers and billboards is approximately the same.

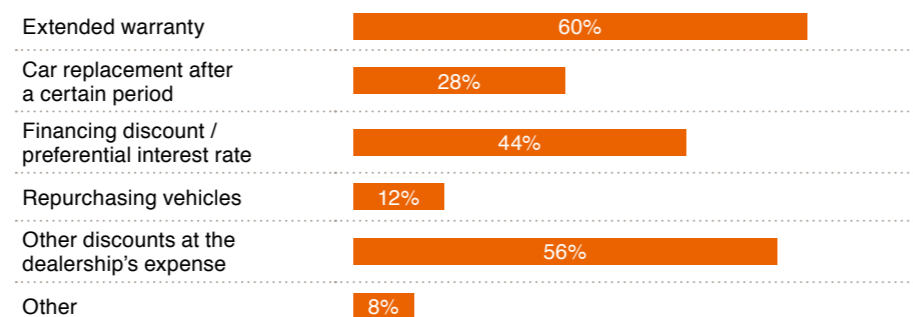
Out of the various purchase incentive programmes provided by the national distributors, 60% of the respondents mentioned the possibility of extended warranty, while 44% mentioned preferential financing structures and interest rates.

IF YOU HAVE CUT COSTS AT YOUR DEALERSHIP, WHICH OF THE FOLLOWING AREAS HAS BEEN AFFECTED?*



* Among those who have implemented cost reduction measures.

WHAT KIND OF PURCHASE INCENTIVE PROGRAMMES ARE USED BY THE NATIONAL DISTRIBUTORS THAT YOU ARE ASSOCIATED WITH?



Impact of the tax changes

The most significant tax changes that took effect from 2012 were the reduction of the registration tax, the increase in the rate of VAT to 27%, and that VAT on leased cars may be reclaimed.

The effect of the first two changes appeared in the tendency, around the end of 2011 and the beginning of 2012, of customers and dealers seeking to purchase their cars in 2011 at a lower VAT rate, but – taking advantage of the lower registration tax – registering their cars only in 2012. This is clearly shown by the decrease in car registrations from November to December in 2011, and its sudden peak in January 2012.

Some people expected, that as a result of the reduction of the registration tax, cars (mostly the new cars) could be purchased at lower prices and, due to the price flexibility, the spending of households would increase. These expectations proved to be premature: based on the responses, only 3% of the price decrease could be attributable to the lower registration tax in both the new and used car markets. In practice this means that the reduction of the registration tax decreased the revenue of the state budget instead of boosting demand for cars (and especially for new cars), therefore leaving the manufacturers, distributors and dealers suffering from the market conditions a few seconds to breathe. On the other hand, it is important to highlight that the import of used cars has jumped parallel with the reduction of the tax rate: the number of imported used cars increased from 32,312 in 2011 to 53,533 in 2012, which shows a significant improvement from the previous years.

Due to the fact that the VAT on leased cars can be reclaimed, a shift from purchase to long-term leasing was clearly expected. The answers in this case show a balanced picture: half of the respondents did not experience this shift, while the other 50% stated they had been able to observe such a trend.



Financial transaction tax

The changes introduced from 1 January 2013 were widely controversial. The results of our survey concerning the financial transaction tax are especially interesting. The majority of the dealers estimate that the extra costs derived from the introduction of this tax and passed on by financial institutions to their customers will be in the millions of forints. **The average of the answers is 2.8 million forints.** At first glance this value is not even surprising, considering the fact that the state budget – although several estimates have been published – expects revenue of 283 billion forints from this tax in the given year. But after taking a closer look, it can be seen that one daily money transfer with the maximised level of tax levied (six thousand forints) – calculated with 250 business days – will trigger extra costs of 1.5 million forints, which is around half of the estimated level of extra costs. The real question in respect of 2013 will be whether – in order to most efficiently utilize the six thousand forint upper limit – the dealers change their payment habits, or by planning or the amendment of their supplier contracts they can significantly reduce the currently planned costs.

From 1 January 2013, a transaction tax is payable on money transfer services that result in the provider deducting the claim recorded against the payer's payment account by the amount indicated in the payment order. For example: cash in- and out-payments, cash transfer, etc. No duty will be payable on payment transactions related to group financing (e.g. cash pool), provided that the accounts of the group members are held at the same payment service provider.

The duty payment obligation will arise on the day on which the payment transaction is completed. Although the payment service provider is liable for paying the tax, there are possibilities for levying the tax on consumers (e.g. by changing the terms of services, fees).

The duty base will be the amount of the transaction concerned. The duty amount payable is 0.2% or 0.3%, but may not be more than 6,000 forints per transaction.

Removing retailers' special tax from the taxation system at the end of 2012 was good news for the dealers. Instead of the much-criticized tax type, however, changes in the local business tax have been implemented so that they may be of similar disadvantage to dealer companies as the terminated retailer's special tax was. Similar to the retail tax, this restriction is only an extra burden to dealerships with minimum net revenue of 500 million forints. The regulation is also similar to the retailer's special tax in that data of related companies should be added, but does not mean any burden to loose organizations and dealer chains not based on proprietary affiliations – i.e. organizations created through joint procurement or marketing functions. Forty-three percent of dealers declared themselves to be subject to the tax change since they have reached the revenue threshold of half a billion forints.



BASED ON THE 2013 RULES, THE COSTS OF GOODS SOLD CAN BE DEDUCTED FROM THE LOCAL BUSINESS TAX BASE IN ONLY A LIMITED AMOUNT, PROVIDED THAT THE NET SALES REVENUE EXCEEDS HUF 500 MILLION. DOES THIS CHANGE AFFECT YOU?

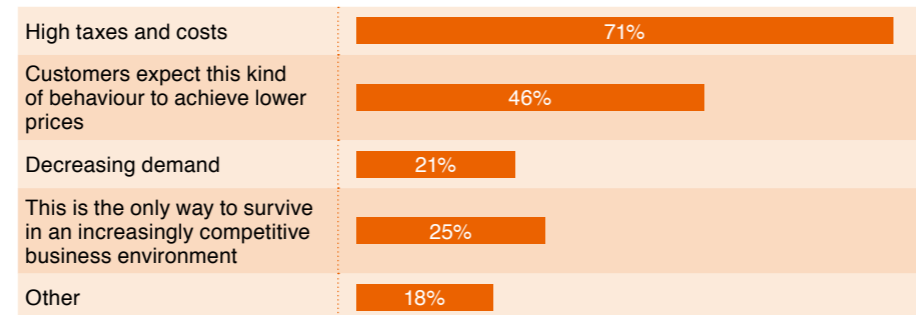
A notable difference in the new local business tax regulations is that they only affect the retailers that usually apply a small (less than 30%) margin, while retailer's special tax had to be paid by every retailer regardless of their margins.

The presence of the black economy in the industry

Black economy is still crippling the industry. Similarly to previous years, approximately 93% of the dealers said that their dealership was adversely affected by the black economy. As the primary reason for the black economy's presence in the industry, 71% of respondents specified the high tax rates and 46% stated that the customers accept and even expect this sort of behaviour to get a lower price.

However, it is also apparent from the responses that there was, perhaps, a slight improvement in fighting against the black economy – interestingly, with the help of one of the tax policy tools: in line with a proposal that has been widely supported in previous years, **50% of the VAT on repair services is deductible from 2013**. It is expected that such deductibility will encourage businesses subject to VAT that own company cars to consider maintaining their vehicles in legally operating and invoice-issuing auto repair shops.

WHICH DO YOU THINK ARE THE MAIN REASONS FOR THE PRESENCE OF THE GREY AND BLACK ECONOMIES IN YOUR INDUSTRY?



The handicap that legally operating repairers bear compared to the black economy did not disappear entirely, as this could only happen if 100% deductibility were available. But still, a rather large majority welcomes this newly introduced measure: **according to 18% of the dealers this is a major improvement, 68% claim that the impact of this tool is only moderate**, while only 14% stated that this won't bring any significant changes to the industry.

This means that another – not yet significant, but progressive – step was made in order to further legitimize the industry. Among other proposed solutions, dealers support the idea of setting up mandatory databases (e.g. for tracking service history) and more frequent inspections.

The future

The expectations towards the future are similar to those in the previous years. Only 41% of the respondents expect some growth in 2013, but this ratio is 86% for the period of 2014–15, while all dealers predict growth for the period starting in 2016 – their opinions only differ on the rate of growth.

The dealers expect around 40–70 thousand new cars to be registered in 2013: **the average expectation is 56 thousand**, which still shows moderate optimism compared to the estimated market equilibrium. On the other hand, this may be evaluated as prudent cautiousness in the light of the banks' declining lending activity and a decreased amount of liquid household savings.

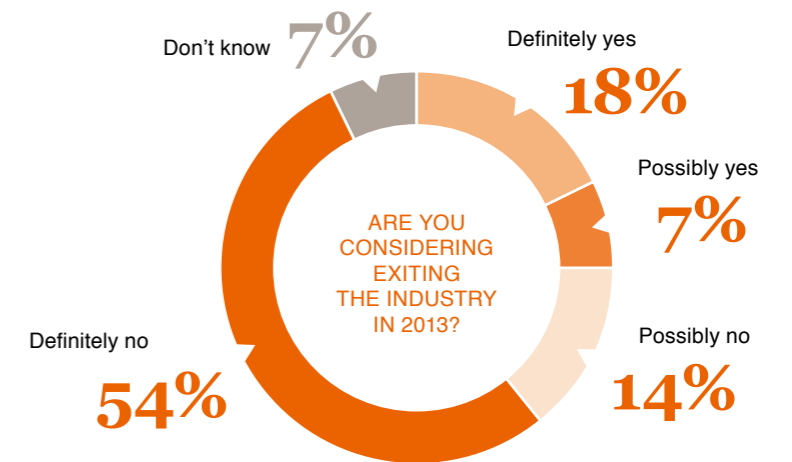
An increased proportion of the respondents (25%, as opposed to 13% last year) are wondering whether they should withdraw from the market, and 18% definitely consider this option, which is a very unfortunate shift from last year.

However, 27% of the respondents (the same percentage as in our previous survey) are planning to introduce a new brand to their portfolio.

According to our respondents, the largest threat to new car sales as an industry is the current state of the market and the limited availability of financing, which was mentioned by 35% of the dealers. The emerging used car import in 2012 ranked second on the list, followed by frequent changes in tax legislation. However, it is indicative that respondents found the market entry of foreign dealership groups as the smallest risk to their current position, ranking this factor as the least probable threat.

HOW DO YOU ASSESS THE CHANCES FOR SALES GROWTH DURING THE FOLLOWING PERIODS?

	No chance	Small chance	Big chance
In 2013	59%	37%	4%
2014–2015	14%	68%	18%
after 2015	0%	44%	56%



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