

Szabó, Gy., Tóth, R. (2025): Budapest in the global economic system. CITY.HU Várostudományi Szemle. 5(2), 11–30.

Budapest in the global economic system

Gyula Szabó¹ – Réka Tóth²

Abstract

Cities remain key economic, political and cultural hubs, shaping both their immediate surroundings and wider regional development. This study explores the evolving economic role of Budapest within the context of globalization and the global urban network. While digitalization and the decentralization of production are reshaping traditional spatial structures, large cities continue to act as centres of governance and innovation.

Using key indicators – foreign direct investment, the presence of multinational corporations, business and financial services, startups and human capital – the paper analyses Budapest’s integration into the global economy. Maintaining its Beta-position in the GaWC ranking, the city functions as a vital intermediary between Hungary and the world economy. Budapest continues to be a primary location for foreign investment, multinational investment centres and business service centres, while its expanding startup ecosystem highlights the city’s innovation potential. Although the financial sector has recently shifted towards domestic ownership, and the concentration of foreign capital has declined, Budapest remains a leading hub for foreign investment and business services.

The findings highlight both the vulnerabilities and opportunities of international embeddedness. The study concludes that Budapest’s future competitiveness will depend on strengthening human capital, fostering innovation, and implementing coherent spatial and digital development strategies, while preserving its role as a bridge between East and West in the global urban hierarchy.

Keywords: global city, foreign direct investment (FDI), globalization, urban development, competitiveness

¹ Economist, Assistant Lecturer, Budapest University of Economics and Business, PhD student, University of Szeged, szabo.gyula@uni-bge.hu

² Sociologist, University of Pécs

Absztrakt

A városok továbbra is kulcsfontosságú gazdasági, politikai és kulturális központok maradnak, kihatva a közvetlen környezetükre, valamint a tágabb regionális fejlődésre is. Jelen tanulmány Budapest változó gazdasági szerepét vizsgálja a globalizáció és a globális városhálózat összefüggésében. Bár a digitalizáció és a termelés decentralizációja átalakítja a hagyományos térszerkezeteket, a nagyvárosok továbbra is a kormányzás és az innováció központjaiként működnek.

A tanulmány kulcsindikátorok – a külföldi közvetlen tőkeberuházások, a multinacionális vállalatok jelenléte, az üzleti és pénzügyi szolgáltatások, a startupok és az emberi tőke – segítségével elemzi Budapest integrációját a globális gazdaságba. A GaWC rangsorban megőrzött Beta-pozíciójával a város továbbra is létfontosságú közvetítő szerepet tölt be Magyarország és a világ gazdaság között. Budapest elsődleges helyszíne maradt a külföldi beruházásoknak, a multinacionális vállalatok befektetési központjainak és az üzleti szolgáltató központoknak, miközben kiemelt jelentőséget kap bővülő startup-ökoszisztémája a város innovációs potenciálja. Bár a pénzügyi szektor az utóbbi időben inkább a hazai tulajdonban lévő szereplők irányába mozdult el, és a külföldi tőke koncentrációja csökkent, Budapest továbbra is a külföldi beruházások és üzleti szolgáltatások egyik vezető központja.

Az eredmények egyaránt jelzik a nemzetközi beágyazottság sebezhetőségeit, és lehetőségeit. A tanulmány arra a következtetésre jut, hogy Budapest jövőbeli versenyképessége a humán tőke erősítésétől, az innováció ösztönzésétől, valamint a koherens térbeli és digitális fejlesztési stratégiák megvalósításától függ, miközben megőrzi szerepét a kelet és nyugat közötti híd szerepében a globális városhierarchiában.

Kulcsszavak: globális város, külföldi közvetlen tőke-beruházás (FDI), globalizáció, városfejlődés, versenyképesség

Introduction

Historically, cities have served not only as political and cultural hubs but also as key economic centres. Their development – and deliberate planning – extended beyond city boundaries, influencing regional growth (Erdősi 2003). Budapest exemplifies this role: as a “gateway city” it absorbed impulses from abroad, especially Western Europe, and transmitted them not only to its surrounding region, but also to the entire country (Enyedi 1998).

Central settlements often functioned as “*hubs*”, concentrating production factors, and industry actors to operate in close proximity benefiting from mutual interactions. Recent decades, however, have seen a profound economic transformation. The free flow of capital, the removal of trade barriers, lower transportation costs, and rapid technological advances have enabled global value chains, allowing production stages to locate where efficiency is the highest. As a result, spatial constraints on corporate location have weakened. Information technology has also reshaped work, giving rise to “*digital nomads*” who change their residence freely while serving distant employers. In this context, proximity to competitors is no longer inherently advantageous, prompting more flexible, global corporate strategies.

Scholars examining cities’ economic roles have naturally tried to reflect on these changes, and at the turn of the millennium, they increasingly debated the impact of globalization on traditional hubs.³ While some production processes – especially assembly – have moved to developing countries with lower labour costs, management and governance activities have become geographical concentrated. Certain sectors, such as information technology, require “*hypercentralised*” infrastructures (Sassen 2000). Consequently, a “*new economy*” has emerged in developed countries and their major cities, driven by services and research and development linked to industry. Here, spatial concentration persists, motivated by opportunities for learning and innovation rather than technological necessity (Enyedi 2016). Cities remain central to global economy: by 2025, the 600 largest metropolises are projected to generate 60% of global economic growth (McKinsey 2011).

³ For the sake of completeness, it is important to acknowledge that opposing perspectives have also emerged. For instance, Barber (2013) argues that globalization leads to the decline of nation-states and the emergence of “city-states”. Enyedi (2016) offers a more nuanced view: he contends that globalization weakens nation-states both “*upwards*”, through their integration into supranational structures, and “*downwards*”, through their exposure to a “Europe of metropolises”.

It is important to note that global cities are not isolated entities, but form complex, hierarchical networks. Networking processes have produced a two-tier structure consisting of nodes and their associated sub-nodes, as well as the connections linking them. Multinational corporations play a central role in shaping these connections (Taylor 2012).

A key question is the extent to which Budapest has integrated into the global economy. This study aims to address this question and to identify key indicators that reflect the capital's international economic role.

Examining the role of cities in the global economy

How can a city's role in the global economy be assessed and what are the determining factors? In parallel with the economic globalization, the criteria for evaluating these questions have also evolved. *Table 1* – without claiming to be exhaustive – provides an overview of the factors that the domestic and international literature considers most relevant for examination.

Table 1.
Factors determining a global city's role in the literature⁴

	Cohen, 1981	Soldatos, 1988	Knox, 1995	Enyedi, 1998	Sassen, 2000	Erdösi, 2003	Kotkin, 2016
Geographical location		X		X			
National center			X				
Population	X		X	X			
Multiethnic		X		X			X
Foreign multinational company headquarters / FDI	X	X	X	X	X	X	X
Domestic multinational companies		X					
Headquarters of international organizations	X	X	X				
Business services center	X			X	X		X
Financial center	X				X	X	X
Significant manufacturing industry	X						
Significant service sector					X	X	
Transportation hub	X					X	X
(Telecommunication) infrastructure		X		X		X	
(International) cultural center, foreign media access			X				
Foreign social, diplomatic relations, relevant institutions		X		X			
Skilled workforce, R&D				X	X		
Other		X		X	X	X	X

Sources: Barta 1998; Enyedi 1998; Sassen 2000; Erdösi 2003; Kotkin 2016

⁴ The header includes the author's surname and the publication year of the study in which the analytical points were raised.

There is no complete consensus among researchers regarding which factors are most relevant for understanding a city's role in the global economy. While the presence of multinational corporations and foreign direct investment (FDI) is widely regarded as essential, the importance of other factors, such as population size, is less uniformly assessed. Some studies, such as Erdősi (2003), argue that population size is far less decisive for a city's global status than the presence of large firms. At the same time, the education level of city residents significantly influences which industries can develop locally, as sectors such as business services, research and development require highly skilled human resources. The proportion of foreigners may also provide valuable insight. In the European context, examining the presence of a developed manufacturing industry is less relevant, whereas access to high-quality telecommunications infrastructure is increasingly taken for granted. At the same time, it is important to examine financial and business services, without which internationalization would be unthinkable. In recent sources⁵, has also highlighted the presence of startups has emerged as a new factor, reflecting their growing importance in the global urban economy. Based on the literature and current global trends – and with an economic focus – this study aims to address the following sub-areas:

- Budapest within the Globalization and World Cities rankings
- Selected demographic characteristics of the capital
- The role of FDI and multinational corporations
- The startup ecosystem
- Business and financial services

In addition the study seeks to outline the future vision for Budapest, providing a brief overview of current economic development plans for the city.

Budapest within the Globalization and World Cities rankings

Since the 1960s⁶, with the rise of globalization, the attention of prominent researchers has increasingly focused on the role of cities in the world economy (Csomós 2015). Based on their studies, various rankings have been compiled emphasising different aspects of urban functions. One of the best-known world city indices, the *Globalization and World Cities, (GaWC) index* was developed by Peter J. Taylor. It ranks cities

⁵ One example is Joel Kotkin's 2016 book *The Human City: Urbanism for the Rest of Us*.

⁶ For example, researchers, such as Peter Hall, John Friedmann, Saskia Sassen, Peter J. Taylor contributed to this field (Csomós 2015).

according to the concentration of advanced producer services (APS) – including transportation, advertising, banking and legal services – and their integration into the world city network (GaWC 2020). Between 2000 and 2020, Budapest’s classification changed several times, fluctuating between Alpha-, Beta+ and Beta-level categories (*Table 2*).

Table 2.
Budapest's ranking based on the GaWC index (2000–2020)⁷

Year / Category	Alpha	Beta+	Beta
2000		x	
2004	x		
2008	x		
2010			x
2012		x	
2016		x	
2018	x		
2020		x	
2024		x	

Source: The author’s own compilation based on GaWC (2024) data

The difference between the Alpha and Beta categories attained by the capital primarily reflects the economic weight of the region, which is linked to the circulation of capital in the global economy. According to the 2024 summary, Budapest ranks ahead of several of its Eastern and Central European peers, such as *Ljubljana* and *Bratislava*. Its classification is comparable to that of *Bucharest* and *Prague*, although it remains behind, cities, like *Warsaw* in terms of global significance (GaWC 2025).

Some relevant demographic data for Budapest

The population of Budapest declined from 1,759,209 in to 1,685,209 in 2025 – largely as a result of suburbanization processes (KSH, Table 22.1.2.1, n.d.).

During the same period, the number of foreign citizens living in Hungary increased from 110,028 to 255,443, representing 2.7% of the total population in 2025. A significant share of them (45.7%) reside in Budapest, accounting for 6.9% of the capital’s total population (own calculation based on KSH, Table 22.1.2.17).

⁷ The first ranking (1998) was excluded, as its compilation methodology differs from that of subsequent rankings.

A qualified workforce is a key prerequisite for successful integration into the global economy, particularly for the establishment of high-value-added activities. According to the 2022 census, the proportion of people with higher education in Hungary reached 19%, more than double the 2001 figure. A similar trend can be observed in Budapest, where the share of graduates is higher, at 34% (own calculation based on KSH 2022). Jobs in innovation-driven industries increasingly require qualifications in *science, technology, engineering, or mathematics (STEM)*. According to Eurostat (EUROSTAT 2025), only 15.9% of Hungarians aged 20–29 with higher education held a STEM degree in 2023, below the EU average of 22.1%.

The quality of human resources is strongly influenced by the standard of higher education. *Times Higher Education* annually publishes a ranking of the world's leading universities. In 2016, the ranking of nearly 1,800 institutions, only two Hungarian institutions were listed: *Semmelweis University* (501–600) and *Eötvös Loránd University (ELTE)* (601–800). In the most recent 2026 ranking⁸, Semmelweis University improved its own position (251–300) and was joined by five other Budapest-based institutions – *Óbuda University* (601–800), *ELTE* (801–1000), *Budapest University of Technology and Economics* (1201–1500), *Hungarian University of Agricultural and Life Sciences* (1201–1500), *Pázmány Péter Catholic University* (1501+) – as well as six universities from outside the capital (*Debrecen, Szeged, Pécs, Győr, Miskolc, Veszprém*) (Times Higher Education n.d.).

The role of FDI and multinational corporations

Already during the period of Dualism, foreign entrepreneurs played a significant role in the development of Budapest's industry. They not only brought their expertise, but also substantial capital. This greatly facilitated the spread of the achievements of the first and second industrial revolutions, the overall modernization of the economy and its integration into the international arena. At the turn of the century, a considerable proportion of goods produced in Budapest proved to be competitive on the world market. Exports were primarily directed to other parts of the Austro-Hungarian Monarchy, the Balkans and Germany, but in some cases, milling products, electronic equipment and vehicles also reached South America.

It is worth mentioning not only the domestic activities of foreign entrepreneurs, but also the international presence of Budapest-based companies. With the construction

⁸ Times Higher Education publishes its rankings one year in advance; therefore by the time the study was finalized (October 2025), the 2026 data had already been released.

of railway lines, from the 1870s onwards, the capital's agricultural traders played a key role in transporting grain from the Balkans to Western Europe. Meanwhile, leading companies from the capital established representative offices in major world economic centres. The boom in agricultural exports came to an end with the influx of cheap crops from the New World and Russia in the early 1900s. The First World War, the subsequent peace treaties and the Great Depression, all had adverse effects on this field but an even more significant turning point when Hungary became part of the Eastern Bloc after the Second World War. The country's high degree of isolation from the world economy was only gradually reduced from the 1960s onwards, when the inflow of working capital became possible – albeit in a limited and controlled manner (Beluszky 1998).

A real change came with the regime change: deregulation and liberalization opened the way for cross-border investments. Following the collapse of state socialism, the country – essentially capital-poor and struggling with significant public debt and technological backwardness – opened its doors wide to foreign, primarily Western investors. Capital inflows took place not only through greenfield investments but also via the privatization of previously state-owned companies.

In the early 1990s⁹, the internationally known companies such as *Tungsram* and *Chinoin*¹⁰ were sold, followed by the privatization of banks and certain public utilities in the mid-decade¹¹. In other companies, foreign capital was raised through stock exchange listings, such as in the cases of *Richter* and *MOL*. *IBM* and *Phillips* entered Hungary by establishing new subsidiaries (Mihályi 2000; Szanyi 2017).

In international comparison, Hungary was particularly successful in attracting capital. In 1995, about 35% of all FDI directed to Central and Eastern European countries¹² flowed into Hungary. By 2001, approximately 20% of the region's total FDI stock was concentrated in the country (Sass 2004). However, from the outset, the spatial distribution of capital investments showed significant inequalities: investors mainly preferred Central Hungary, and within it, Budapest (Antalóczy, Sass 2005).

⁹ Since a comprehensive presentation of all companies privatized or newly established by foreign owners would far exceed the scope of this study, we limit ourselves to a few selected examples only.

¹⁰ *Tungsram* and *Chinoin* were both acquired by multinational corporations: the former by General Electric, and the latter is now part of the Sanofi-Aventis group.

¹¹ It is also worth noting that following privatization, several formerly state-owned enterprises – such as *Csepel Művek* and *Ganz Danubius Ship and Crane Factory* – were subsequently closed (Mihályi 2010). These closures had significant economic and social consequences, including rising unemployment and a considerable loss of national assets.

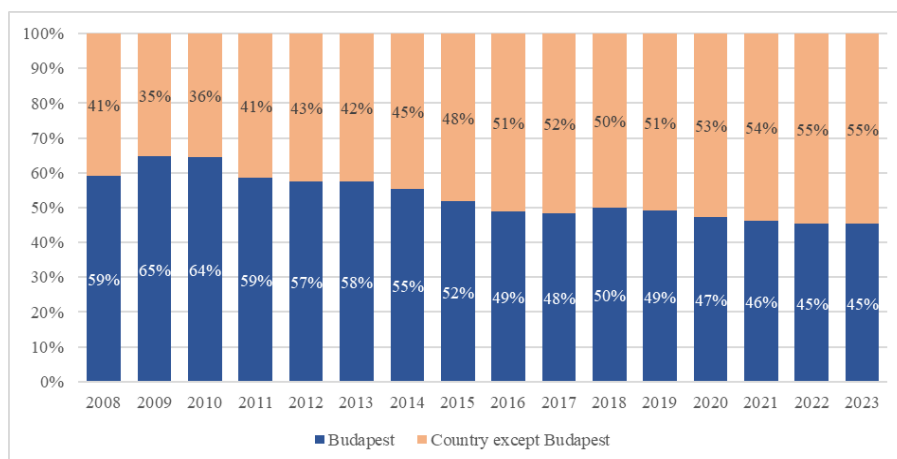
¹² For the purposes of this study, *Eastern Central Europe* refers to *Bulgaria, the Czech Republic, Estonia, Poland, Latvia, Lithuania, Hungary, Romania, Slovakia and Slovenia*.

After Hungary's accession to the European Union, the range of economic policy instruments that available to stimulate investment narrowed considerably¹³, which "melted away" the country's previous advantage in the competition for foreign investments. From 2010 onwards, the government has selectively supported certain production sectors, such as the automotive industry (Antalóczy, Sass 2005; Szanyi 2017). However, the key players in these industries are not concentrated in the capital region¹⁴.

Regional disparities in foreign direct investment have not disappeared completely, although they have significantly diminished. Examining the period between 2008 and 2023 (*Figure 1*), it can be observed that while in 2009 65% of Hungary's net FDI stock¹⁵ was concentrated in Budapest, this proportion gradually declined after 2010, reaching 45% by 2023. In that year, the capital's FDI stock amounted to more than HUF 18,521 billion, compared with a national total of HUF 40,777 billion (KSH BPM6, n.d.).

Figure 1.

Regional distribution of net FDI stock



Source: Authors' calculations based on data from the Hungarian Central Statistical Office (KSH) BPM6 (n.d.)

¹³ Examples include the establishment of free zones and the granting of tax incentives, which are largely prohibited by EU law due to their market-distorting effects.

¹⁴ The competition rules of the European Union prohibit the granting of state aid that distorts competition among economic operators. However, subsidies aimed at supporting the development of less advanced regions are permitted (Antalóczy, Éltető 2017). This may encourage some investors to choose a location farther from Budapest, if a sufficient number of potential employees are available in the given region and logistical conditions are also favourable (Stefanovics, Nagy 2021).

¹⁵ Between 2008 and 2023, Budapest's share of foreign direct investment (FDI) reached its highest level in 2009. FDI share.

The spatial distribution of foreign-owned enterprises operating in Hungary is even more pronounced, showing an increasing predominance of the capital. In 2008, 61% of the 28,683 foreign-owned companies were headquartered in Budapest, while 39% were based in other settlements across the country. By 2023, among the 24,012 companies registered the proportions had shifted to 64% and 36%, respectively. Comparing the data for the two years, it can be stated that the change reflects not only a shift in proportions but also an overall contraction in the number of foreign-owned enterprises. Between 2008 and 2023, their total number declined, by around 16% nationwide. However, this trend affected Budapest to a lesser extent, with a decrease of “only” 13%, compared to a 22% decline in other regions (author’s calculations based on KSH BPM6, n.d.).

Since Budapest¹⁶ hosts a higher proportion of foreign-owned companies than its share of total FDI, it can be concluded that the most capital-intensive investments were not made in the capital.

To gain a more comprehensive picture of Budapest's global economic embeddedness and connectionist integration into global value chains, a more in-depth examination of the multinational corporations operating in the city is advisable. The COFACE CEE TOP 500 Ranking¹⁷ (2022) provides a useful starting point for this analysis. Of the 500 major companies included in the ranking, 64 are headquartered in Hungary. A higher number is found only in Poland (153) and the Czech Republic (92).

For the companies operating in Hungary mentioned above, the prominent economic role of Budapest is clearly evident. Of the 64 companies, 33 have their headquarters in the capital, while 31 are based in other towns across the country. However, four of the large companies headquartered in Budapest cannot be classified as multinational¹⁸ economic players in terms of either their activities or ownership structure. Therefore, the following analysis focuses on 29 Budapest-based companies¹⁹.

¹⁶ This finding is true for the entire period between 2008 and 2023, except for the years 2009 and 2010. The “divergence” between the two data sets began in 2011 and became markedly pronounced in the latter half of the 2010s.

¹⁷ The publication is issued annually, with the latest edition released in October 2022, presenting data for the year 2021. The list ranks the 500 largest companies in Central and Eastern Europe – that is, *Bulgaria, the Czech Republic, Estonia, Croatia, Poland, Latvia, Lithuania, Hungary, Romania, Serbia, Slovakia and Slovenia* – based on their revenue.

¹⁸ In this study, multinational companies are defined as firms that are members of an international corporate group, domestic subsidiaries of foreign companies, or Hungarian-owned enterprises with foreign subsidiaries, either directly or indirectly. Ownership structures were assessed based on publicly available company data and information published on their official websites. Firms that, although of potential interest due to the location of their headquarters, do not operate across national borders were excluded from further analysis (*Szerencsejáték Zrt., Nemzeti Útdíjfizetési Szolgáltató Zrt., Market Építő Zrt., Magyar Posta Zrt.*). In The analysis focuses on 38 companies. Although their headquarters are located in Budapest, their economic activities are not necessarily confined to the capital and may extend to other regions of the country.

¹⁹ Although the examined companies are headquartered in Budapest, their economic activities may extend beyond the capital to other regions of the country.

The distribution of these companies by main activity reveals a clear numerical dominance of trade-oriented firms (17). 7 companies operate primarily in the service sector, 4 in manufacturing, and only 1 is primarily engaged in research and development.

Before examining the sectoral characteristics in more detail, it is important to note that the relatively limited presence of firms in “knowledge and technology intensive”²⁰ sectors is somewhat surprising. As notable exceptions – at least within the scope of the companies analysed in this study – *Richter Gedeon Chemical Plant Plc.*²¹ and *Thyssenkrupp Components Technology Hungary Kft.* can be highlighted for their high R&D-intensive operations.

Figure 2.

Distribution of multinational companies in Budapest by main activity



Source: The author's own calculation based on COFACE (2022)

²⁰ The US National Science Board (2020) in its analysis entitled “Production Patterns and Trends of Knowledge- and Technology-Intensive Industries” categorizes individual industries based on their R&D intensity, providing a framework for assessing the use of knowledge and technology in each sector. Areas with “high R&D requirements” include, for example, pharmaceutical production and R&D services, which can serve as important “breakout points” for a country’s economy.

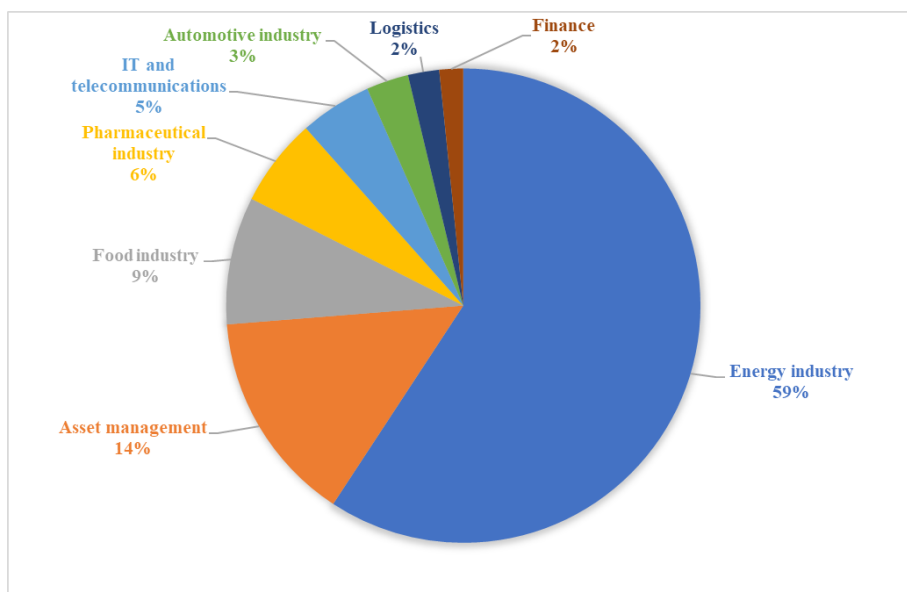
²¹ It is important to note that *Richter* is not the only pharmaceutical company headquartered in Budapest. Another significant player in the industry is *Sanofi-Aventis Hungary Trading and Service Co., Ltd.* However, according to the *TEAOR classification*, this company's primary activity is “Wholesale of pharmaceuticals and medical products”. Therefore, in this study, it is classified as a trade-oriented company. *Sanofi-Aventis* conducts its domestic manufacturing activities in *Veresegyház*, near *Csanyikvölgy* in Miskolc, and its distribution centre is in *Nagytétény* (*Sanofi n.d.*). In addition, *Teva Pharmaceutical Co., Ltd.*, headquartered in *Debrecen*, falls outside the scope of this study.

Of the 29 enterprises, the largest group operates in the energy sector (11 companies) (*Figure 2*), including electricity production, distribution and trade (5), gas and fuel trade (5), and petroleum processing (1). Five companies are active in the food industry, mostly in trade (4), and one in production. In the automotive sector, one company focuses on sales, alongside the previously mentioned R&D specialist; no manufacturing companies are present. The limited role of automotive component production in the capital – despite its national significance – reflects these firms’ tendency to locate near car factories.

Based on their sales, three pharmaceutical companies and three IT firms headquartered in Budapest were included in the COFACE summary, along with two logistics companies and one financial services firm. Notably, two asset managers are highlighted separately, as they oversee a broad network of companies engaged in diverse activities, including agricultural and industrial production, tourism, and energy.

Figure 3.

Revenue of Budapest-based multinational companies by industry



Source: Author’s own calculation based on COFACE (2022)

The surveyed companies reported total sales revenue of €58,779 million in 2021, with energy companies accounting for 59.24% of this figure. Asset managers and the food industry contributed significantly less, at 14.50% and 8.69% respectively, while all other sectors combined represented 17.57% (*Figure 3*). The sales revenue of Hungarian-owned and multinational companies²² operating in Hungary as listed by COFACE, underscores the capital-centric nature of the domestic economy, with firms based in Budapest generating approximately 55% of the country's total output.

Startups

According to a survey by *Startup Genome*, a policy advisory and research institute monitoring the global startup ecosystem, Hungary had approximately 2,900 startups at the end of 2022 employing around 10,000 people. These companies are predominantly based in Budapest²³, where the estimated value of the city's *startup ecosystem* has reached €1.8 billion. In one of the leading sectors of the startup scene – the *fintech*²⁴ sector – 106 companies were active in Budapest as of January 2023, primarily engaged in financial software development (26%), payment services development (19%), and data analysis and business services (17%) (Startup Genome 2023).

In terms of startup density, Hungary ranks among the leaders in Central and Eastern Europe, with 305 startups per 1 million inhabitants, slightly behind the Czech Republic (310). By comparison, Poland has 209, and Slovakia 237. However, the country lags behind Western Europe, where Germany has 616 startups per million inhabitants and the Netherlands, 2,585 (Bacsó et al. 2023).

In the international *StartupBlink* (2023) ranking of startup ecosystems, Budapest placed 134th²⁵ out of 1,000 cities, improving by 33 positions compared to 2022 and surpassing Bratislava (279th). Among major regional competitors, *Warsaw* ranked 99th

²² The results of large domestic, non-multinational companies included in the COFACE summary were not considered in this case either.

²³ Unfortunately, *Startup Genome* does not provide detailed data on the geographical distribution of Hungarian startups. A useful starting point for estimating Budapest's significance is the *Startupbase database*, maintained by *Dealroom* and the *National Innovation Agency*. However, this source has certain limitations: it includes only registered companies and publishes data at the regional level only. According to these records, as of December 2023, 76% of the 1,591 registered startups were headquartered in Budapest or Pest County (own calculation based on Dealroom n. d.).

²⁴ Fintech: financial technology, referring to digital developments in the financial services.

²⁵ Within the European Union, Budapest ranked 25th (StartupBlink 2023).

and *Prague* 83rd. The study highlights that Hungary – and Budapest in particular – has been the birthplace of startups such as *Prezi*, *Ustream* or *LogMeIn*²⁶.

Although the dynamic growth of previous years has been somewhat disrupted by economic and political challenges, as well as the emigration in the IT sector, Budapest remains a popular destination for “*digital nomads*,” thanks to innovative “*coworking*” spaces, strong networks within the startup community, and a relatively low cost of living by European standards (Koudela 2015; Koudela, Baranyi 2024).

Business and financial services

A characteristic trend among globally operating today is the organization of key support functions into service centres²⁷. Since the primary goal of this is cost reduction, the availability of a large, multilingual and well-educated workforce, at relatively low labour costs, is a decisive factor in location selection.

The number of service centres in Hungary has increased significantly in recent years. According to data from the Central Statistical Office (KSH) 9.8.2.4 (n.d.), a total of 340 centres were operating in Hungary in 2023, of which 219 were located in Budapest. In 2019, only 107 centres selected the Hungarian capital as their site.

According to a 2021 survey by the *Hungarian Investment Promotion Agency (HIPA)*, 87% of the 156 business service centres (BSCs) in Hungary with significant added value were located in Budapest, employing more than 70,000 people that year. HIPA conducted a detailed analysis of 78 companies²⁸ in the sector, revealing that 40% serve global clients, 56% regional (European) clients, and 4% domestic clients. By the parent company’s industry, the IT sector (22%) had the largest share, followed by mechanical engineering (15.5%), automotive (11.5%), financial services (7.5%), and the

²⁶ The aforementioned companies have grown into global players, and, although, publicly available information indicates that their headquarters are now located in the United States, they have not ceased their Hungarian operations, and in some cases continue to maintain research and development departments in the capital.

²⁷ Several terms are used in connection with business service centres. In addition to the term “*shared service centre*” (SSC), the term “*business service centre*” (BSC) has recently gained prominence, referring to activities with higher added value. Some providers are also described as “*global service centres*” (GSC). In essence, the task of each is to provide administrative, human resources (HR), payroll, logistics, accounting, marketing, IT, and procurement support for their corporate groups. In this study, we collectively refer to these types as *service centres*; where a specific subgroup is discussed, it is indicated separately.

²⁸ The 78 companies surveyed operate a total of 100 locations in Hungary, 68 of which are in Budapest and 32 in other parts of the country (HIPA 2021).

pharmaceutical and biotechnology (7.5%). Approximately 73% of BSCs perform financial, accounting and controlling functions; 69% provide human resources services, and 64% provide IT support. In addition, albeit to a lesser extent, their activities include procurement and logistics, customer service, marketing, research and development, and legal services.

Notably, 69% of the surveyed companies reported expanding their Hungarian portfolios with new services or functions in the year preceding the survey. At the same time, 22% relocated certain activities abroad, primarily citing the need to reduce operating costs as the main reason (HIPA 2021).

In terms of business services, it is also noteworthy that Budapest hosts all members of the "Big Four" global auditing firms – *Ernst & Young*, *Deloitte*, *KPMG*, *PricewaterhouseCoopers*.

In line with the focus of our research, it is important to highlight a key phenomenon of recent years in the financial sector: the radical transformation of the ownership structure of credit institutions.

The liberalization of the Hungarian banking sector began even before the political transition. As a result, from the 1990s onwards – primarily through greenfield investments – an increasing number of major international players entered the domestic banking market. The wave of privatization that started in 1994 and intensified a year later, led to a sharp rise in foreign ownership, which became dominant by 1997. By the turn of the millennium, banks with majority foreign ownership accounted for 76%²⁹ of the sector. This process significantly enhanced the country's capacity to attract capital, facilitated the spread of modern financial services, and fostered competition among market participants, thereby driving quality improvements even among domestically owned financial institutions (Várhegyi 2001).³⁰

An unexpected advantage of this high level of internationalization became evident after the 2008 financial crisis, when foreign parent banks played a crucial role in alleviating the liquidity problems of their Hungarian subsidiaries. However, following the change of government in 2010, the "nationalization" of the banking system became a priority, with the aim of achieving a domestic ownership share exceeding 50%. This

²⁹ By comparison, the corresponding ratio at that time was 65% in the *Czech Republic*, 54% in *Poland*, and only 25% in *Slovakia* (Várhegyi 2001).

³⁰ It is important to note that the modernization of credit institutions was accompanied by territorial centralization. In the early 2000s, 95% of banking assets and 68% of banking sector employees were concentrated in Budapest. While in 1987 only 11% of bank branches were located in the capital, this ratio had risen to 31% by 2008 (Gál 2007).

goal was achieved by 2017, when the proportion of domestically controlled credit institutions – measured by total assets – rose to 55.7%. By 2021, it reached 61%, and by 2022 62.7% (Várhegyi 2019, 2023; EBF 2022).

The process described above reflects a clear decline in the international embeddedness of the Hungarian financial sector.

Future directions of economic development

In order for Budapest to maintain its cosmopolitan character, the city must respond effectively to the ongoing challenges that accompany this role. *The Budapest 2030 – Long-Term Urban Development Concept*, published in April 2013, sets out the vision of developing and operating a coordinated, Budapest-centred economic space, with the explicit aim of defining and filling with substance a renewed concept of the metropolitan area. The primary source of funding for this initiative is the financial support provided by the European Union through various operational programmes.

The document identifies the key factors of competitiveness as strengthening the R&D&I³¹ potential of higher education – thereby promoting a knowledge-intensive economy – supporting urban diversity improving the quality of life, and enhancing the labour market through training and retraining.

The current multi-faceted direction of urban development is guided by the *Budapest Spatial Development Strategy (At Home in Budapest – Integrated Urban Development Strategy, ITS)*, which builds upon the Budapest 2030 concept. The medium-term strategic document – published in 2021 and covering the period until 2027 – focuses on three main priorities: *liveability* (expansion of green spaces), *opportunity creation* (an affordable and healthy living environment) and *democratic urban governance* (broad-based citizen participation in public affairs). These directions primarily serve to improve the quality of urban life, thereby indirectly supporting actors in the corporate sector.

The ITS defines Budapest as “*the meeting place of East and West*”. It envisions a city offering innovation-driven business environments, suitable locations for enterprises, and high-quality education, research and training opportunities. The strategy places particular emphasis on promoting the digital transition, which is essential for maintaining economic competitiveness. Furthermore, it highlights the development and operation of supportive institutional frameworks, including the introduction of comprehensive digital administration and the open access provision of the capital’s data assets by 2027 at the latest. Furthermore, it highlights the development and operation

³¹ The abbreviation R&D&I stands for *Research, Development and Innovation*.

of supportive institutional frameworks, including the introduction of comprehensive digital administration and the open access provision of the capital's data assets by 2027 at the latest.

Conclusions

Budapest remains a “beta city” today, serving as an intermediary between the global economy and other regions of Hungary. According to the GaWC index, the city is strongly embedded in global networks, although its level of integration has occasionally experienced setbacks. Following the political transition, Budapest became a prime destination for foreign investment and multinational enterprises; however, in recent years, the spatial concentration of such investments appears to be gradually diminishing.

At the same time, the number of high value-added business service providers continues to expand dynamically, accompanied by the emergence of a startup ecosystem that is significant even by international standards. By contrast, the transformation of the banking sector indicates a certain degree of decline in the international embeddedness of the Hungarian economy.

The proportion of the residents with higher education is high by national comparison, yet still lags behind the European Union average. In terms of human resources, it is noteworthy that foreigners moving to Hungary predominantly settle in Budapest. To ensure that the capital remains attractive both to investors and those seeking to relocate, a comprehensive regional development strategy has been adopted. If successfully implemented, this could strengthen the region's economic competitiveness – primarily through indirect effects.

It is also important to stress that Budapest's resources and competences are limited, and several key policy areas – most notably higher education – lie beyond the city's direct control.

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