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# Hungary Economic News Letter

**Embassy of the Kingdom of the Netherlands**

**December 2012**

*Dear Reader,*

As it had been expected the Hungarian Parliament passed the 2013 budget, keeping extraordinary company taxes opposed by the IMF and which businesses blame for a lack of investment and economic growth. The 2013 budget sets a 2.7% of economic output deficit target and projecting a 0.9% increase in GDP. Additionally to new taxes on special sectors, the Hungarian government announced that it will reduce the price of energy to households by 10%, main part of which is to be paid by the energy companies. The nationalisation of gas storage capacities has been in the pipeline already.

As to the main macroeconomic indicators, the 1.7% drop in industrial production definitely comes as a surprise. After the weaker September it was assumed that only the fewer working days in that month were to blame and that seemed to be underpinned by the foreign trade numbers too (6.5% annual increase in exports). Hungary's November consumer price index has arrived at 5.2% year on year, decelerating from 6.0% reported a month earlier. The MNB's monetary council cut the base rate from 6.0% to 5.75% at its last rate-setting meeting, despite the sudden weakening of the HUF.

In December the Transparency International published the annual Corruption Perceptions Index 2012 on which Hungary was ranked 46. This means that corruption remains a severe problem in Hungary and creating accountability and fighting corruption remain a serious challenge for both the government and the society. Hungary faces corruption challenges in several areas, including legislation, political financing, the private sector and the judiciary system.

The Dutch Embassy – as a member of the Transparency Working Group of Ambassadors, as well as an active supporter of TI - contributed to the seminar held on the Anti-corruption Day (December 9). Moreover, the Embassy provided the first prize of the contest for the mobile applications developed for anti-corruption activities. The winner was the application called "Corruption Tales" which app for android can be freely down-lowed now from the TI Hungary's website.

Last but not least, we wish to all our newsletter readers a happy and prosperous new year!


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| *Bert van der Lingen* | *Martijn Homan* | *Marina Varga* | *Éva Szabó* |
| *Deputy Head of Mission* | *Agricultural Counsellor* | *Senior Policy Adviser* | *Trade Promotion Officer* |

*EU relations*

**EIB loan for Hungary**

The European Investment Bank (EIB) has just granted EUR 560mn (HUF 162bn) of new funding to the Hungary. A loan of EUR 400mn will co-finance with EU grants priority projects included in the Social Renewal and Social Infrastructure Operational Programmes of the New Hungary Development Plan. The main focus will be on education activities and health care services. The loan will foster policy reform, lifelong learning, social inclusion and employment. In addition, it will provide for infrastructure required for improvement and changes in both sectors. The loan of EUR 160mn (HUF 45.5bn) will support intangible investments linked to the research activities of the Hungarian Academy of Sciences in the period 2012-2014. EIB funds will also finance the Hungarian Scientific Research Fund, an Academy Library and a Digital Information Centre. In the past three years the EIB has contributed more than EUR 1.3bn to the completion of domestic projects, primarily in the fields of environmental protection and transport infrastructure development, as well as in relation to the renewal of industry, energetics, telecommunication and education.

**NFÜ streamlines EU pay-out access**

The National Development Agency (NFÜ) paid out HUF 250bn (EUR 860mn) in EU subsidies over the last month under the New Széchenyi Development Plan, for a total of HUF 1 trillion this year, it announced. Hungary has used HUF 3.3bn of the funds available in the 2007-2013 budgetary cycle since 2007. Access to EU funds has accelerated this year thanks to legal and administrative improvements, NFÜ president Zoltán Petykó emphasised. Local governments and budgetary institutions have had difficulties co-financing projects, but the government set up a HUF 30bn fund in October to address this problem. Local governments can request refundable or non-refundable grants. To speed up access to EU funds, NFÜ has introduced ex-ante financing, available for 170 public procurements totalling HUF 273bn.

**Warning comes from the ECB**

ECB President Mario Draghi said that Hungary's central bank must retain its independence to be credible – a rare public warning about undue political influence ahead of a change in the bank's leadership. Draghi's remarks coincided with the latest in a string of calls by ministers for closer co-ordination between Viktor Orban's government and the National Bank of Hungary to shore up central Europe's most indebted economy. The Hungarian government has put pressure on the central bank to do more to help the recession-hit economy and some analysts have said. The appointment of a new governor at the National Bank of Hungary in March 2013 could usher in an era of unconventional steps, after a series of rate cuts in second half of 2012. A leadership change at Hungary's central bank will allow the government to build a strategic alliance with the bank to boost the economy, Economy Minister György Matolcsy commented to Reuters. Matolcsy also said the bank would have to focus on helping growth and employment as well as curbing inflation.

*Economic policy*

**Government to cut the energy prices for households**

Hungary will lower the retail price of natural gas and electricity by 10% as of 1 January 2013, announced János Lázár, head of the Prime Minister's Office. He also said the government will approve the purchase of E.ON's gas business, and that strategic and commercial gas storage units will be pulled under state control. The decision of the cabinet on this issue is final, he said, adding that 3.8 million families will be affected equally.

The price cut will be detrimental primarily for the distributors that are all western multinational companies. Lázár also said they are working on details how to prevent the energy companies from passing on the losses stemming from the price cut to customers. Lázár also said the cabinet has taken the necessary measures to keep under government control the strategic and commercial gas storage units all over the country, which is also key for energy supply security and for retail supply. With the help of these storage units the state can purchase natural gas for households when prices on global markets are lower, he added. Lázár noted that these measures enable the cabinet to lower gas and electricity prices by 10%, reminding that this is the first such move in 22 years, i.e. that a government does not raise but lowers the retail price of gas and electricity for households.

**Off-shore amnesty brings back HUF 60bn**

Hungarians repatriated over HUF 60bn (EUR 206mn) worth of funds from offshore accounts to benefit from the offshore amnesty offered by the state. They paid 10% of this sum to the tax authority, local daily *Magyar Nemzet* reported. Based on data by tax authority NAV the paper said the offshore amnesty brought state coffers HUF 2.9bn in 2011 and HUF 3.2bn so far. The tax amnesty ended in December last year. Under current regulation, any company or private individual that transfers funds home from foreign or offshore accounts (companies) will be exempt from the 16% personal income tax, the 27% healthcare contribution and the funds deposited at local banks will remain anonymous because the bank itself deducts the 10% tax from the repatriated funds. Then the financial institution informs the tax authority about the payer who remains anonymous. Individuals implementing the new tax amnesty rules cannot be subject to a so-called wealth investigation or tax audit concerning that income.

In relation to the declared income, no further tax liability can be assessed and no tax-related criminal responsibility can be charged. In the case of a tax review procedure, the tax authority may only request the tax certificate issued by the financial institution.

*Budgetary policy*

**2013 Budget passed**

The 2013 budget was passed by Parliament, envisaging a deficit of HUF 834.8bn (EUR 2.87bn), or 2.7% of GDP, based on 0.9% economic growth. Last-minute modifications included a 5% rise in pensions next year and the continuation of debt takeover from local governments. In the final vote and political debate Economy Minister György Matolcsy argued that the budget preserves achievements and contributes to a positive turn in fixed capital investments.

The government has demonstrated its in-ability to prepare a budget as it was substantially modified at the last minute, argued Socialist MP István Józsa. Jobbik's László Nyikos said it was a mis-take to approve the budget figures in the summer, as they have been modified several times since. LMP's Gábor Vágó warned that the large reserves in the budget show the government's lack of confidence and might be used to buy votes.

**Hungary may need further austerity measures in 2013 - Fiscal Council, MNB**

In view of Hungary's Fiscal Council, the 2013 budget deficit is in line with the provisions of the Basic Law. The FC has also warned that the sizeable reserves are not accessible due to the risks that are already visible. This means that the cabinet has no reserves to fall back on during the year in case of arising risks therefore it may need to carry out additional measures next year. The three-member body hit a rather critical tone about the soundness of some tax measures too. The Council said that the impact of some of the measures and regulations conceived in a bid to reach the budget deficit goal overall increase the already existing and considerable risks to starting and sustaining growth.

The Council noted there is no government documentation that would underpin the additional revenue the cabinet hopes generate by improving the efficiency of tax collection. At this point it specifically said that revenues from the Simplified Entrepreneurial Tax (SET or EVA) could decline considerably and due to preferences on contributions the budget could lose contribution revenues too. As to the central bank's opinion on the budget, the deficit could overshoot the target at 4.4% of GDP unless the HUF 400bn reserves are frozen, the MNB predicts. Even if reserves are locked in, the bank forecasts budget deficits for 2014 to exceed the government's 3% target, due partially to the planned wage hikes.

*Monetary policy*

**Monetary council cuts rate further**

MNB's monetary council cut the central bank base rate by 25 basis points to 5.75% at its last rate-setting meeting in December. Short-term ex-change rate volatility played no role in the decision, although it is an important signal of fragile trust that rumours have been able to move the market, governor András Simor said after the meeting.

**MNB trims inflation targets**

The National Bank expects inflation to drop to 3%, its medium-term target, by the second half of 2014, its inflation report unveiled. The MNB sees annual inflation shrinking to 3.5% next year from 5.7% in 2012, a sharp revision from the 5% projection made in September. Core inflation is expected to hover at 3.5% in 2013 and 3.2% in 2014. The MNB trimmed inflation forecasts by one percentage point following the government's announcement to reduce energy prices by 10% from January. Excise tax hikes also came in lower than projected, shaving off 0.4 percentage points from target inflationary figures, writes *Napi Gazdaság*.

*Employment*

**Minimum wage going up 5.3%**

The minimum wage will rise from the present HUF 93,000 (EUR 310) per month to HUF 98,000 (EUR 327) from January 1, under an agreement reached by employers groups and unions. The minimum wage for skilled labour will go up from HUF 108,000 (EUR 360) to HUF 114,000 (EUR 380). The increases of 5.3% in the minimum wage and 5.5% in the skilled labour minimum are both above the 5.2% earlier demanded by unions. In the food, textile, leather and furniture industries, in building and special construction as well as in catering and accommodation services and in retail trade the raise is expected to be paid by the government for the private companies to their 256,000 employees concerned, including additional payroll taxes, in the first half of next year.

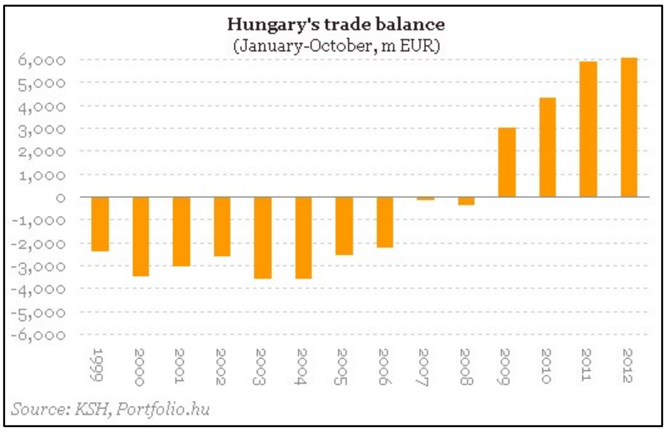
**Less and less jobs created**

Hungary's Employment Service reported only 8,600 jobs that were newly created without state subsidies in November 2012, the lowest number since December 2009. The number of vacant positions fell 20% month-on-month, whilst the year-on-year decline was 17%. The statistics including subsidized job creation also show a dramatic 25% decline from November 2011. Registered jobseekers totalled 536,000, some 2% more than a year ago. Moreover, the average duration of registered jobseeking status increased by one month.

*Competitiveness*

**Exports grew by 6.5% in October**

The fourth quarter also starts by a bigger monthly trade surplus than in the base period. The persistently rising trade surplus since 2009 can be attributed to two things. Firstly, imports cannot rise since the internal engines of the economy have come to a halt; neither consumption, nor investment demand generate imports. Secondly, exports are holding on despite a weakening European business cycle, although expectations in early 2012 were in fact bolder: analysts projected a meaningful dynamics to be added by the new Mercedes plant.




The detailed figures and the weak first quarter, however, point out that the rising vehicle production capacities can only prevent exports from declining.

The export performance is especially important because there is really nothing else that could come to the rescue of economic growth. If exports turn out feeble in Q4, the economy could remain in recession and contraction in growth could be recorded in further quarters ahead.

*Business environment*

### Hungary ranks 46th on the TI's corruption perception list

In the Transparency International's Corruption Perceptions Index 2012 Hungary scored 55 in 2012, which was enough for rank 46. Although Hungary's position within the region is still fairly good - only Estonia, Slovenia and Poland rank higher - it is only the 19th among the 27 European Union member states, i.e. it remains in the lower third of the ranking.

This means corruption remains a severe problem in Hungary and creating accountability and fighting corruption remain a serious challenge. Hungary faces corruption challenges in several areas, including legislation, political financing, the private sector and the judiciary system. But it has also made progress in this respect in the central government, public prosecution and the public sector, TI said.

### Shadow economy grows

Hungary's shadow economy causes the Treasury an annual loss of HUF 2,000bn (EUR 7bn) in lost tax revenue, HUF 1,500bn of it payroll tax, state secretary for tax affairs Ádám Balog told a conference. Balog noted that about 1.2 mln Hungarians earn the minimum wage or less, twice the number in the Czech Republic. At the event organised by the Joint Venture Association, he outlined a number of tax instruments that will be introduced from next year with the aim of squeezing the shadow economy. The government plans to collect HUF 180bn (EUR 618mn) in additional tax revenue from operators of the black economy in 2013.

The National Economy Ministry's calculations show reverse taxation in the grain sector could yield an additional 15 billion forints, and the new rules taking effect from April in the hog and feed sectors 10 billion forints for the central budget. The government also hopes to collect an additional HUF 95bn (EUR 0.3bn) as a result of introducing electronic control of cash registers.

*Legislation*

### New rules applied as of January 1

In the case of tax-exempt intra-Community supplies of goods, if the period covered by the partial payment or settlement exceeds one calendar month, tax assessment obligation arises on the last day of each calendar month. As to the advance payment, in the case of intra-Community transactions, the advance payment does not generate tax liability. Accordingly, no tax assessment, invoice issuing and recapitulative statement submission obligation arises either. In the future, taxpayers may not only apply the official foreign exchange rate of the National Bank of Hungary but also that of the European Central Bank for the conversion of their tax base to HUF, however, if they choose to apply the exchange rate published by the European Central Bank, they have to announce this to the tax authority.

The tax exemption of supplies of goods and services by a public service provider under a child or youth protection scheme shall not apply to the provision of meal services if the consideration of such service is payable separately. The act specifies that letting qualifying, in terms of its content, as the provision of a commercial accommodation service, is taxable.

*Dutch presence in Hungary*

### Heineken plans 10% price increase

Heineken Hungária will increase its prices by 10% on average next year, CEO of the brewery Dele Ajayi told *Világgazdaság*. The Hungarian beer market will grow by no more than 1-2% this year, after 3-4% growth last year, which mostly was due to innovation, he remarked, as products with fruit flavours were launched. Heineken previously spent most of its energy in Hungary in building up its brand, but is now boosting the Soproni brand, the most popular beer in Hungary, Ajayi said.

*Industry*

### Industrial production in limbo

Hungary's industrial production declined by 3.8% month on month in October and 1.7% on year, according to preliminary figures, the Central Statistics Office (KSH) reported. This was the biggest month-on-month drop since December 2011. "*The main culprit is computers, electronics and optics, which shows significant and increasing contraction, to the point of several plants being on the verge of closing down*," Miklós Schindele, statistician at KSH, told Reuters.

**Ukrainian steel company ISD Donbass shuts down its rolling mill in Hungary**

ISD Dunaferr, the Hungarian unit of ISD Donbass, will shut down its furnace No.1 for refurbishment after the middle of January 2013, the company agreed with the management of the Ukrainian parent, which has also reached a final decision to close the Lőrinc Hot Rolling Mill. The first reports about the Dunaújváros-based steel company planning the layoff of 800 workers arrived in August 2012. The downsizing was to start this year and be concluded in six months. The staff cut will affect 250 workers at the hot rolling mill in Pestszentlőrinc. There were reports in the autumn that on top of the 800 people to be sacked Dunaferr will cut another 2,500 jobs, should the plant put a stop to its liquid phase, i.e. steel production next year. In this stage a total of two furnaces are in operation and Dunaferr is to shut down only one of these in early 2013, according to the current report.

*Automotive*

**Audi sales soar worldwide**

Audi has broken its 2011 sales record already by the end of November. Audi AG sold 10.9% more cars in November 2012 than in the same month of 2011 and its January-November sales went up 12.7% year-on-year. Consolidated sales were helped mostly by sales outside the European Union. The two main engines of sales were the A3 and SUV models. Audi targeted 1.4% cars sold globally in 2012.

Meantime Audi has approved plans to spend EUR 13bn on expanding manufacturing capacity and developing new models by 2016 in order to challenge market leader BMW, wire service Bloomberg reported. The investment will be partly used to expand the Audi plant in Győr, Western Hungary. The Győr plant is expected to boost manufacturing capacity to 125,000 cars per year starting next year. Mass production of the new 1.2-liter and 1.4-liter engines started in November this year at the factory.

**Automotive suppliers expand**

Brake manufacturer Knorr-Bremse Fékrendszerek is investing nearly HUF 5bn (EUR 17mn) in Kecskemét, building a new factory and a testing centre to replace the existing factory. The new unit will be ready by the end of 2013. Knorr-Bremse is creating 31 research jobs and 100 at the factory, with a HUF 1.4bn (EUR 4.7mn) subsidy. Car parts maker Poppe & Potthoff has completed a HUF 6bn investment in its Hungarian subsidiary in Ajka, Veszprém county, adding a 4,000m2 production plant to its 16,000m2 production area. The company supplies high-pressure injection lines for diesel engines. Last but not least, automotive industry supplier Racemark International will relocate production from Switzerland to Komárom, creating 51 new jobs. The company will start production at the Komárom industrial park in the first quarter of the year, following a EUR 1.8mn investment. The US-based company could invest further given contracts with other premium car makers besides BMW, Bentley and Volkswagen. The company makes floor and trunk mats, seat covers and seat vests.

*Construction/Infrastructure*

**Public projects boost construction sector**

Construction industry output increased 1.4% year-on-year in October, according to the Central Statistics Office. Construction output dropped 4.2% in the first ten months. Building construction decreased 0.3% year-on-year in October, and other types of construction increased 2.7% year-on-year. The volume of new contracts shot up 36.5%. Of this, new orders for building constructions dropped 8.1%, but new orders on other construction shot up 81.6%. The increase is due to motorway construction, railway modernisation and building of sewage and waste treatment facilities. The total volume of orders increased 11.8%. The construction industry has been split into two segments apparently, the private segment collapsed, while EU and state-financed projects are expanding.

*Services*

**State mobile payment fees announced**

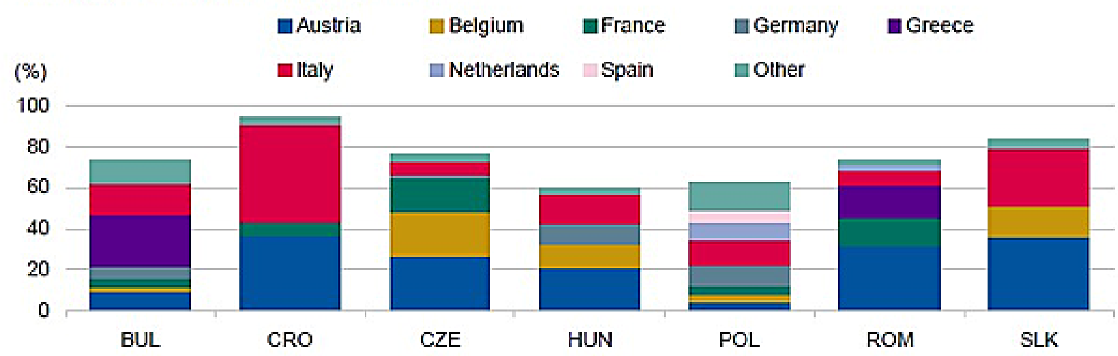
Regulations for the state mobile payment system have been announced in the official gazette *Magyar Közlöny*. Payment of car parking fees will cost HUF 50 (EUR 0.17), for motorway usage HUF 80 (EUR 0.27), and other payments HUF 100 (EUR 0.33). Present mobile payment systems may act as agents of the state-owned mobile payment company Nemzeti Mobil Fizetési, paying a 10% commission on car parking fees and 5% on motorway usage. The system will sell city transport tickets in the future.

*Financial services*

**Fitch on foreign funding of the banks**

The reduction in foreign funding of banks was the biggest in Bulgaria and Hungary between end-2008 and end-June 2012, a survey of 43 foreign-owned banks in central and eastern Europe (CEE) conducted by Fitch Ratings found. The results, which are broadly in line with trends in foreign funding indicated in Bank of International Settlements (BIS) data and CEE countries' external debt statistics, indicate that the CEE banks' parent funding has decreased moderately since the onset of the global financial crisis. Hungary was the only country where not only parent funding but domestic deposits also contracted, which means the decrease of funds was the most drastic in Hungary. The most significant reductions in parent funding were in Bulgaria (47%, equal to 13% of banks' liabilities) and Hungary (38%, or 12% of liabilities). In Hungary, the reduction in group funding likely reflected both greater parent bank concerns about sector prospects and subsidiaries' lower external funding needs after early foreign-currency mortgage repayments."

Foreign Bank Ownership in CEE



Source: Fitch, National Central Banks. Data excludes banks with very small market shares

*Telecommunication*

**Synergon announces acquisitions**

Synergon has announced acquisitions of smaller Hungarian companies for a total value of HUF 1.9bn (EUR 6.3mn), to be paid partly by cash and partly in own shares. The new group members will add HUF 400-450mn (EUR 1.3-1.5mn) to Ebitda next year and will up revenues by HUF 3bn (EUR 10mn). Synergon is purchasing NK Services, the leading cloud computing service provider in Hungary. It will purchase the Wiera group, which provides wireless internet access for Danubius Hotels, Ramada and Accor hotels, MOL filling stations, and in fast food restaurants and shopping malls. Synergon is also acquiring Adatvilág, the main distributor of Symantec products in Hungary, with a 500,000 m2 industrial construction site next to the M1 motorway, where it plans to build a 2,000-5,000 m2 data centre. Synergon's Ebitda might double next year from the acquisitions, *Napi Gazdaság* estimates.

**Utilites tax may have a strong impact on poor regions**

A tax on utilities lines in force from next year could eat up smaller cable television companies' and internet service providers' profits, possibly leaving communities in underdeveloped regions without service, daily *Népszabadság* said. Cable TV companies and ISPs — as well as waterworks, electric companies and other utilities providers — must pay the state a fixed amount on every metre of their network starting next year. The standard rate is HUF 125 per metre, but companies with the smallest networks must pay just HUF 25. Still, even the reduced amount is enough to make business impossible for some smaller companies, the paper said. Gergely Halo, a company that provides service to 40 villages in Nográd County, among Hungary's poorest regions, would pay about HUF 16mn on the tax when its annual profit comes to just HUF 4.5m, *Népszabadság* said.

*Transport*

**MOL makes rubber bitumen for roads**

A Közgép consortium including Swietelsky, Euroaszfalt and Magyar Aszfalt has completed a 19km road reconstruction programme linking Királyegyháza and Sellye in Baranya county. The project featured rubber bitumen provided by MOL. The oil company makes rubber bitumen from used tyres at its production plant in Zalaegerszeg. The rubber ingredient should decrease noise.

**BKK signs with unions, orders plans**

BKK managing director Dávid Vitézy signed a collective agreement with representatives of in-house employee unions to take effect January 1. Mayor István Tarlós's top priority has been to conclude talks successfully and reach agreement with trade unions, BKK announced. It was the Budapest leadership's principal goal that BKK and the unions ensure that employee interests and incomes not be curbed during talks, while at the same time "*needing to take into account the scant available resources and financing difficulties of public transport in Budapest*," it said.

BKK has also announced a tender of HUF 1.3bn (EUR 4.3mn) for plans to develop the metro, tram and suburban railway network, to be financed from subsidies of the 2014-2020 EU planning period, according to the EU public procurement gazette *TED*. Construction costs could reach HUF 700-800bn (EUR 2.3-2.7mn), BKK had earlier estimated.

Four feasibility studies are being called. One is on the reconstruction and extension of the blue metro line for HUF 392.4bn (EUR 1.3bn), and a second on connecting the red metro line with the suburban railway to Gödöllő, with an option for a branch line to Rákoskeresztúr in the 17th district, for HUF 485mn (EUR 1.6mn). A third study should outline a southern stretch of the north-south railway line through the city, for HUF 100mn (EUR 333.000). A fourth should examine the feasibility of a united development plan for trams and trolley buses, and an approved construction plan on extending tram line 1 to Kelenföld railway station, for HUF 282.4mn (EUR 941.000). Bids should be filed by January 25, 2013, and will be ranked by price and the default interest offered in case of delay.

*Energy*

**Work on South Stream to start in 2013**

Construction of the Hungarian section of the South Stream gas pipeline may start within a year, CEO Csaba Baji of state energy company MVM announced in Russia. He spoke at a ceremony in Anapa, where the launch of the construction of the pipeline will begin. The first gas transport from Russia to Italy is scheduled for December 2015.

The 229km Hungarian stretch will be built by Déli Áramlat Magyarország, a joint venture of MVM and Russian energy giant Gazprom. Total costs are estimated at almost HUF 200bn (EUR 667mn), to be paid equally split by the two parties. The project company will take up a loan covering 70% of the costs, and 30% will be financed from its own sources. MVM will certainly able to contribute its share and it has started to select a financial adviser concerning the loan, Baji added. Once MVM's gas market portfolio is completed with the acquisition of the E.ON's Hungarian gas operations, then "*deeper co-operation of a different kind*" will be possible with Gazprom, Baji remarked.

**Home insulation programme continued**

Of the HUF 4.5bn (EUR 15mn) revenues from the sale of CO2 quotas, HUF 1.8bn (EUR 6mn) will be used for the home insulation programme "Panel II" block of the green investment system, the Energy Efficiency Institute MEHI has announced. Applications to the Panel II programme in 2009 exceeded available funds of HUF 14bn (EUR 47mn). The present money would be allocated to these applicants, but the criteria are unknown, MEHI director István Bart observed. Both technology and financial conditions have changed greatly over three years, *Napi Gazdaság* remarks.

**MOL to lose gas reserves to the state**

Parliament's decision that security natural gas reserves can only be maintained by the state means that storage company MMBF Földgáztároló should be taken over. MOL is majority owner of the storage, and members of Hungarian gas and oil storage association MSZKSZ have a 27.5% stake. It is not necessarily bad news for MOL, pending the details, commented ING analyst Tamás Pletser.

The likely scenario is that the government will settle the issue with MOL in negotiations, a source close to MOL has said. MOL built strategic reserves in Szőreg, near Szeged, with a value of HUF 220bn (EUR 733mn), in exchange for a 30-year contract from the state, which has been paying HUF 13-14bn (EUR 43-47mn) annually to store gas there since 2010. In a separate event, Hungarian fuels group MOL, its Slovakian unit Slovnaft and Transpetrol signed a Memorandum of co-operation regarding the modernisation and expansion of Friendship 1 pipeline transport capacity with the municipalities of Slovakian town Tupá and Hungary's Százhalombatta.

*Retail*

**Reál takes over Arzenál**

Retail chain Reál Hungária's offer a few weeks ago to take over activities of competing chain Arzenál Régió has been accepted by shareholders, says Montan CEO László Antal. The contract will be signed in January. Following a few months of joint brand name use, all retail units of Arzenál will bear the logo of Reál, he added. Arzenál realised HUF 26bn (EUR 86.7mn) turnover last year. It had left the Reál chain a year ago, following its purchase by financial investor Montan group in early 2011. This summer Arzenál, which ran the Arzenál chain in Budapest and surrounding areas, went bankrupt, and activities were assumed by Arzenál Régió, which earlier ran the chain outside Budapest.

*Environment*

**Hungary sells CO2 quotas**

Hungary sold so-called second phase CO2 quotas, covering the 2008-2012 period, selling 1.25mn EU emission allowances at EUR 6.29 with a EUR 0.07 discount below the secondary market price, the European energy ex-change EEX in Leipzig has announced. Eight companies bid for a total of 2.2mn EUAs. The transaction raised HUF 2.3bn (EUR 7.7mn) in budget revenues for Hungary. The country also sold 1.25mn EUAs on December 10 at EUR 6.63, with a EUR 0.01 premium over the secondary market price, making HUF 2.4bn (EUR 8mn) in budget revenues.

**State to differentiate recycling fees**

The state recycling agency OHÜ will pay differentiated fees to its partners on recycled household waste, agency spokesman Szabolcs Török announced. Fees will depend not only on weight but on such parameters as population density in the area of collection and collection methods. Some 9.1mn people had access to selective recycling in 2012, up from about 8.3mn in 2011. However, waste collection fees will be worked out by the Energy Office (MEH) from January 1, 2014, it was announced. The new regulation assigns the role to MEH in close cooperation with state recycling agency OHÜ. The energy office is already in charge of setting prices for gas, electricity, district heating and water.

*Agriculture*

**Parliament okays land bill, law package**

Among dozens of amendments passed, Parliament amended the Basic Law for the third time, making the land bill a cardinal act requiring two-thirds of MPs to approve or change it. Based on a proposal by Regional Development Minister Sándor Fazekas, the act de-fines restrictions and terms for obtaining and using farmland and forests, as well as agricultural regulations. However, Fidesz MP József Ángyán joined the opposition voting against the bill. Ángyán and János Bencsik say the act on family farms and co-operatives is left out of the land bill, wrongly favouring major entrepreneurs.

*Food industry*

### Meat industry to be rescued

The European Commission informed Hungary in an official letter about its concerns that the government intends to rescue the meat industry from state funds, a move it learned from the press, a government official said. Gyula Budai, state secretary at the Ministry for Rural Development, told local daily Magyar Nemzet on Wednesday that he was surprised by the letter. Meanwhile, János Lázár, state secretary at the helm of the Prime Minister's Office, said the government together with the municipalities of Pápa, Kaposvár and Gyula will rescue the meat processing companies of these towns.

### Cerbona's pasta division restarts

Production at the pasta unit of Székesfehérvár-based food company Cerbona, currently under liquidation, have restarted after a year-long hiatus, liquidator Agro-Alba confirmed to *Napi Gazdaság*. Mary-Ker, a Hungarian-owned company engaged in food wholesaling, will oversee production. Agro-Alba has put the assets of the company for sale once again. The asking price has been lowered to HUF 741mn (EUR 2.5mn) from HUF 852mn (EUR 2.8mn). Several Cerbona assets have successfully been sold, including the cereal factory, which was operating during the liquidation procedure with 90 employees, going to Naponta.

*Events*

**AgromashExpo: International Agriculture and Agricultural Machinery Exhibition**

**Viticulture & Viniculture: Vine-Growing and Vineries Exhibition**

**Hungarian Garden Fair: Forum of gardeners and gardening in Hungary**

Date: 30 January-2 February

More info: www.hungexpo.hu

**Budapest Boat Show: International Boat Exhibition**

**FeHoVa: Hunting, Fishing and Arms International Exhibition**

Date: 14-17 February

More info: www.hungexpo.hu

**Caravan Salon: International Camping and Caravan Exhibition**

**Travel: International Tourism Exhibition**

**Port.hu Bringaexpo**

Date: 28 February-3 March

More info: www.hungexpo.hu