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Hungary Economic News Letter

Dear Reader,

The Hungarian government hopes that the IMF will soon be ready to grant Hungary a two-year credit line of EUR 10-15bn. The deal could be signed three weeks after the government resolves its dispute with the European Union. Analysts were also mulling the possibility that Hungary may not actually get a new bailout from the IMF and EU anytime soon, because the government is unwilling – or politically unable – to make the policy changes that its lenders-in-waiting demand before they will allow formal talks to begin. Indeed there had been signs that the Orban government may play the "Turkish card" (i.e. only pretending to be interested in an agreement with IMF) and has been testing the waters for a bond issue on the financial markets. In order to signal its commitment the government published a 276 page long document called "The Big Reform Book". However, financial markets have not found the reform programme convincing enough, so very strong pressure on the government from the business community remained to meet the conditions and sign an agreement with the IMF. The conditions to start the IMF negotiations also linked to the procedures initiated by EC, but no considerable progress has been achieved in this respect in course of the month. No surprise that Hungary's central bank sees no room to lower its key policy rate, the highest in the European Union, until risk perceptions improve. The new convergence programme (to be published in mid-April) can give some new direction for the market.

Some macro indicators turned positive, for instance due to the strong export the trade balance shows its traditionally high surplus. Due to the controversial state of the external business cycle Hungary can expect further export growth primarily from the launch of production in the new Mercedes plant. In its recently published study, PwC maintains that Hungary is a good location for investment. Indeed, the most significant investment decisions come from vehicle manufacturers, beside the new Daimler plant that started its production this month, Audi's EUR 900mn capacity expansion in Győr and a EUR 60mn investment by German car parts supplier Rehau, also in Győr. Therefore a potential port developments in Győr and/or Gönyű can be good opportunity from Dutch business too.

As to the Embassy events, together with Platform Outsourcing Nederland (PON), the HBN has organised the event 'Successful outsourcing to Hungary' which took place on April 5th in Amsterdam. The **Dutch Ambassador in Hungary, Mr Robert Milders,** has made a presentation for about 60 participants about doing business in Hungary; various workshops have been held, examining the advantages and disadvantages of outsourcing in Hungary.

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

EU relations

Infringement procedures continue

The EC has decided to refer Hungary to the EU's Court of Justice because it continues to impose a specific tax on the turnover of telecoms operators in violation of EU rules, the EU executive announced. The European Commission decided on 7 March on further steps following Hungary's reply to three letters of formal notice of 17 January and their legal analysis. The EC sent two reasoned opinions - the second stage under EU infringement proceedings after which the matter may be referred to the Court of Justice of the European Union - and two administrative letters. The reasoned opinions concern the independence of the data protection authority and measures regarding the retirement age of judges. Some progress was made however in the field of the central bank legislation. It should be also added that further cases are still under examination in Brussels, such as the tobacco trade regulation, the ban on plaza construction and the limitation of use of the so called Elisabeth vouchers.

Economic policy

Big Reform Book published

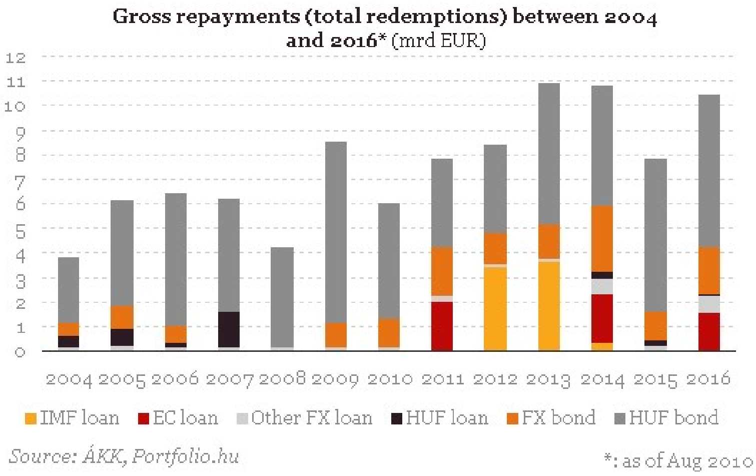
The National Economy Ministry published a Big Reform Book to present a summary of the government's efforts to boost Hungary's economy including measures taken during the first 18 months of the government as well as plans for the future. The 276-page document published on the ministry's website notes that the primary goal of the government's economic strategy is to build a country with the most competitive business environment in Europe. The study, consisting of five chapters, evaluates the reform packages introduced during the past one and a half years, describes the government's strategies, and outlines the current situation of the Hungarian economy. Interestingly, the Hungarian version has an ambitious subtitle too: "The Hungarian way to the sustainable growth and employment". In turn, the English version contains the word "austerity" while the Hungarian does not.

This time Minister of National Economy claimed that 83% of the new Széll Kálman plan is about to be fulfilled in 2012. As to reality, February budget balance shows a HUF 393.9bn (EUR1.3bn) deficit (excluding local governments and state linked organisations), the Economy Ministry has reported, confirming that this shortfall pushed the cumulated gap to HUF 386.6bn (EUR1.3bn), which is nearly 50% of the full-year target. In other words, a new "Széll Kálmán Plan" (i.e. austerity measures) would be needed. Therefore most of the analysts are waiting for the Convergence Programme which should be submitted to Brussels by mid-April. The measures included in this should be the basis of the 2012 and 2013 budgets and these should ensure that the targets are not missed.

Budgetary policy

AKK tests waters for bond issues

Hungary may issue a foreign currency bond even before it reaches an agreement on a credit line with the IMF/EU, said **István Töröcskei**, CEO of the Government Debt Management Agency (ÁKK). He added that market conditions are rather favourable now and the country will most likely issue in USD but they examine other currencies such as JPY or even RUB issuance. Analysts were not happy to hear this, neither the Ministry of National



Economy. The ÁKK have indicated previously that they want to borrow EUR 4bn from international capital markets this year, and would likely want to do as much as this, as early as possible, to get cash in the bank and then to improve their negotiating position with the EC/IMF. AKK's remarks seem to test the waters and to underpin the view that the government is 'playing the Turkish card', i.e. it only wants to buy time and trusts that investor sentiment will become better and stay that way for a longer time. The idea that Hungary will not necessarily wait for an IMF deal can send a message to investors that with a successful FX bond issuance under its belt the cabinet will be less interested in reaching an credit agreement quickly. This also prove the government does have a Plan B, while the official standpoint is that there is no alternative to a credit deal with the IMF/EU.

Monetary policy

Interest rate remains 7%

The rate-setting Monetary Council of the National Bank of Hungary decided to keep the central bank's key rate on hold at 7%. The Council kept the base rate unchanged at meetings in January and February, after two consecutive decisions to raise the rate by a combined 100 basis points. Consumer price index increased by 5.5% year-on-year in January 2012. In February it continued its rise and reached 5.9%.

The NBH published its latest macro forecast which expects 5.6% annual average inflation for 2012 and 3% for 2013. The rise in the CPI in the first two months of 2012 was surprising and was attributed to the bigger-than-expected pass-through of indirect tax hikes to consumer prices, the weaker exchange rates and the increasing energy and raw materials prices.

The government ready to amend the central bank law

Hungary's government plans to amend at several points the Central Bank Act of late last year in order to comply with EU law, and Economy Minister **György Matolcsy** sent the draft amendments to European Central Bank President **Mario Draghi** on March 7.

The government also requested the opinion of the NBH. The amendments proposed by the government would annul the provisions of the act under which the NBH would send the agenda of the Monetary Council to the government and the meetings of the Monetary Council would be attended by a representative of the government. The NBH does not agree with changes that would increase the number of members in the Council and elect another vice chairman, and believes that it would decrease the credibility of monetary policy. The statement says it would strengthen the long-term independence of the Council if its members would be elected and complete their terms at different times.

The NBH believes that the credibility of monetary policy can be enhanced if the bank operates in a stable institutional and legal environment. The NBH said a previous law determined the number of Council members at 5-7 based on research conducted regarding the optimal membership of similar decision-making bodies in similarly sized countries. The NBH also believes that a third vice chairman is unnecessary for the operation of the Council. Mandatory limitations on the remuneration of the NBH's governor and vice-governor, also decreed by the Government, hurts the independence of the central bank and is incompatible with legal order in EU, the NBH concluded.

Employment

Wage subsidies announced

The parliament passed rules under which employers are to top up the salaries of those earning less than a gross HUF 300,000 (EUR 1.000) a month, and changed this year's budget to help ventures meet the government's requirement of a 5-percent pay-rise. Under the budgetary change, HUF 21bn (EUR 70mn) will be reallocated to the National Employment Fund, which will be used to subsidise ailing ventures. The earlier announced subsidies are intended to help employers fulfill a government mandate to raise the wages of low earners who would otherwise take home less because of recently introduced tax changes.

The subsidies support a 5 percent increase in the wages of such earners. In order to be eligible for the subsidies, employers must pay wage compensation to all workers affected. They must also maintain headcount at or above last year's levels, and they may not make more than one-fifth of full-time employees part-timers.

Unemployment on the pick

The number of employed in Hungary was 3.8 million in the December 2011-February 2012 period, the Central Statistics Office (KSH) reported. The decline in the number of employed that started last autumn has continued, but in annual terms the latest figure still corresponds to a 51,000 increase. Compared to the September-November period, however, the number of employed declined by 76,000. The number of unemployed grew further and the unemployment rate ticked up to 11.6%. The highest jobless rate in the past ten years in Hungary was reached two years ago at 11.8%. The economic research institute GKI predicts the jobless rate to average 11% for the year, saying there are no signs of improvement, as investments and general growth expectations do not provide support for the labour market. The government earmarked HUF 200bn (EUR670mn) for such programmes this year, a significant increase from HUF 120bn in 2011 and HUF 64bn in 2010.

Business environment

Consumer and business confidence improved in Hungary

In March the GKI-Erste economic sentiment index adjusted for seasonal effects rose to its 2011 late summer level following a continuous decline of almost one year. According to the empirical survey conducted by GKI, in March, expectations improved significantly in the business sector, and slightly among consumers. In the business sector, every sector's pessimism eased, however, this year's investment plans are weaker than last year's. The trade confidence index increased the largest extent. The inflationary expectations of consumers eased a little bit as well. After the nadir of January, a significant improvement occurred in all sectors for the second consecutive month for the situation of the Hungarian economy.

PwC sees Hungary still attractive

Hungary remains an attractive target for investors planning for the long term, despite the country's unfavourable image after criticisms from the EU and IMF, according to PwC. The consultant presented its findings in "Investing Guide Hungary 2012," available in English and German, published with investment promotion agency HITA. The agency managed 83 projects at the end of 2011, which rose to 112 at the beginning of the year, agency president **Erzsébet Dobos** told *Napi Gazdaság*. The total value of these investments, if implemented, would be EUR 6bn, creating 28,300 jobs. The agency approved 24 projects worth a combined EUR 1bn in 2011, creating 5,780 jobs, Dobos said. Investors are seeking opportunities in the electronics, IT and pharmaceutical sectors.

Number of businesses is up

The gloomy economic outlook of recent years in Hungary has resulted in many indicators of business activity pointing steadily downward. But one that hasn't is the number of businesses. Indeed, in 2011 the number of businesses officially registered in Hungary actually grew 4.3% in 2011, to a record 650,063. Although 51,755 businesses defaulted over the course of the year, during this same period 101,718 companies were started.

Experts agree that one reason for the gap is that closing a business down is a complicated and drawn-out process in Hungary, whereas a new one can be establishing in a matter of hours. In many cases, businesses under liquidation proceedings are hastily "re-established" under a different name, although as of this March a change in the law has made establishing new companies by debtors more difficult. The greatest number of newly established companies was in Budapest, Debrecen and Miskolc, in Hungary's three largest cities.

Competitiveness

Record high trade surplus confirmed

Hungarian International Trade, 2011				
	Imports		Exports	
	EUR bn	%*	EUR bn	%*
Food	3.7	11.8	5.8	16.1
Commodities	1.8	31.0	2.3	34.4
Energy	9.0	27.4	2.9	44.7
Manufactured goods	24.3	15.5	23.2	17.9
Machinery,vehicles	34.3	3.3	45.6	6.1
Total	73.0	10.8	79.9	11.8
* from previous year				

Hungary's trade surplus was EUR 325mn in December, the Central Statistics Office announced. The trade surplus was EUR 414mn in the same month of 2010. The trade surplus amounted to a record EUR 6.9bn last year, according to the final figures. As import prices went up 5% and export prices increased 2.9% the terms of trade worsened by 2% in 2011. The trade balance with old EU member states worsened by EUR 1.2bn but improved EUR 700mn with the newer members. Exports to non-EU countries went up 18%, while such imports remained stable.

In 2011 the bilateral trade between the Netherlands and Hungary totalled EUR 5.2bn. The trade balance shows a surplus in favour of the Netherlands. Dutch exports to Hungary amounted to EUR 3.176bn, which is a 6% increase compared to 2010. The Netherlands is the third biggest exporter to HU among the old EU member states, following Germany and Austria. Interestingly, the highest growth was registered in the product group of raw materials and energy, and manufactured goods. Dutch imports from Hungary amounted to EUR 2bn last year, and showed a 10% decrease as compared to 2010. In the Dutch import of Hungarian goods the most dynamic group was food and beverages with more than 30% annual growth and manufacturing with 8%.

SMEs

Jeremie scheme for SMEs picks up

SMEs received HUF 75bn (EUR 250mn) in venture capital under the EU-subsidised venture capital programme Jeremie last year, almost double the HUF 39.4bn (EUR 131mn) disbursed in 2010. **József Vingelman**, CEO of Magyar Vállalkozásfinanszírozási, a private venture capital financing firm established by state development bank MFB and overseen by the financial watchdog Pszáf, said the company signed 269 financing agreements last year.

Hungary has access to HUF 230bn (EUR 767mn) in EU funds under the Jeremie programme for 2007-13, he said. The funds are being distributed via the Central Hungarian Operative Programme and the Economic Development Operative Programme, which provides funding to businesses excluding Budapest and Pest county. Of the HUF 75bn (EUR 250mn) disbursed last year, HUF 33bn (EUR 110mn) was distributed via the New Széchenyi loan scheme.

Dutch presence in Hungary

TP Vision taking on 600 Philips workers

Philips Magyarország has started dismissing its 230 workers in two or three phases. The dismissals are part of the global cutbacks announced last April, as Philips gives up non-TV production in Székesfehérvár, *Népszabadság* reported. TP Vision Magyarország, a TV set manufacturer founded by Philips and a Taiwanese investor last July, will continue its operation will take over 600 workers from Philips. Of those, 350-400 will be blue-collar workers. TP Vision might also hire an additional 400 temporary workers, raising total staff to 1,000.

Aegon rewards outstanding artists

AEGON Hungary General Insurance Co. established the AEGON Art Prize in 2006 in order to recognise the writers of outstanding Hungarian contemporary literary pieces and cast extra light on their works. To name but a few, among the so far awarded authors are

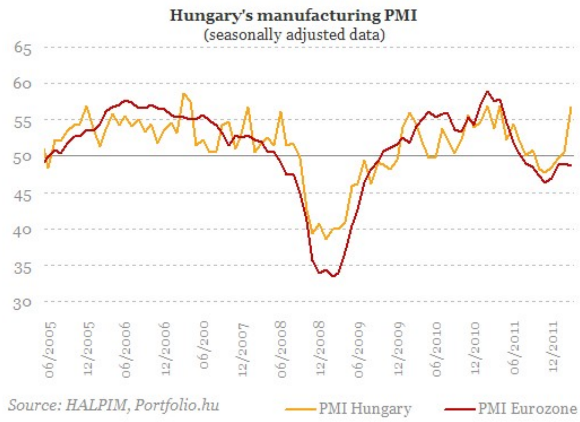
Péter Esterházy, **György Spiró** and **János Térey**. Six months after receiving the prize, the awarded writer can select a meritable artist from a different discipline to receive the Partner Prize. Since 2006, the AEGON Art Prize has become a true promoter of artistic achievement in Hungary.

The company spends 1% of its profit on CSR, and about 55% of this amount is spent on cultural activities. Dutch Ambassador **Robert Milders** invited the awarded writers and artists to a reception held at his residence on 1 March 2012. It is also worth adding that according to economic new portal Portfolio, Aegon is the same on the insurance market as OTP is in the banking sector. Although based on premium income Aegon was generally only the fourth-largest player on the Hungarian market, when it comes to profit it was almost unbeatable.

Industry

Encouraging signs in manufacturing

Hungary's manufacturing purchasing manager index (PMI) rose to 56.8 points in March 2012 from 51.2 points in February, the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM) reported. Hungary's manufacturing industry has been expanding constantly between July 2010 and July 2011. In turn the PMI of the Eurozone bounced back in March 2012.



Donau Chemie building new factory

Austria's Donau Chemie is establishing a EUR 5.5mn manufacturing and trading centre for its water treatment products at the BorsodChem complex in Kazincbarcika, *Napi Gazdaság* reports. As such products usually musts be delivered within a 600 km range in order to be cost effective, Donau Chemie decided to expand eastwards. An EU directive orders the use of ferric chloride and aluminium chloride – which Donau produces – in sewage treatment by 2020. Donau Chemie will utilise the hydrochloric acid by-product of BorsodChem's TDI production, saving transport costs. Donau Chemie is hiring 5,000m^2 from BorsodChem. The new factory will start production in early 2013.

Automotive

Production of Mercedes-Benz starts in Kecskemét

Serial production began in the lat days of March at the Mercedes-Benz factory in Kecskemét, four years after Daimler selected the central Hungarian town as the site for its EUR 800mn project. Prime Minister **Viktor Orbán**, Daimler AG CEO **Dieter Zetsche** and **Frank Klein**, managing director of Mercedes-Benz Manufacturing Hungary, pushed a red button to signal the start of production. Daimler will manufacture new generation compact models at the first Mercedes-Benz factory in Eastern Europe. Daimler has already decided to add 500 jobs by the end of the year to the 2,500 on the payroll, due to rising demand.

The factory has created an additional 10,000 jobs indirectly through suppliers, with 80% of the supplies coming from Hungary. The workers will produce 100,000-120,000 "A" and "B" class Mercedes models annually. Daimler will begin preparations in the second half of the year for the assembly of a four-door coupe, with the first models expected to roll off the production line in 2013.

Orbán opens Linamar workshop

Prime Minister Viktor Orbán opened the new HUF 6.9bn (EUR 23mn) workshop of agricultural machinery and car part manufacturer Linamar Hungary in Orosháza. He reiterated his goal of having 5.5 million people working and paying taxes in order to make the country successful. The project added 5,000m^2 to Linamar's 11,000m^2 production facility and creates 250 jobs, while subsidies covered HUF 1.5bn (EUR 5mn) of the costs.

Auto firm Luk Savaria expands

Car parts manufacturer Luk Savaria launched a HUF 15bn (EUR 50mn) capacity expansion project a few days ago, *Napi Gazdaság* reports. The company, part of the Schaeffer group, is building one 11,200m^2 and one 7,800m^2 workshop in the Claudius Industrial Park in Szombathely. Payroll will rise from the present 1,700 to 1,900 by the end of the year and to 2,400 by the end of 2014 when the project ends. Luk Savaria generated revenue of EUR 460mn in 2011, supplying parts to BMW, Audi, Ford, Fiat, Peugeot, Mercedes, Isuzu, Opel and Hyundai.

Construction/Infrastructure

MKB sues Budapest over abandoned property project

MKB Bank is suing the city of Budapest at the Capital Court, claiming EUR 25mn and default interest, the bank announced on the Budapest stock exchange website. MKB argues that the city failed to fulfil its duties in the contract with construction company Porto Investment Hungary, builder of the CET Budapest cultural complex on the Pest side of the Danube, designed by famous Dutch architect **Kas Oosterhuis**. Porto borrowed EUR 28.4mn from MKB for the EUR 30.8bn project. The CET was scheduled to open in August 2010 but has remained empty and unused, due to disputes between the city and the developer. The new city leadership ordered a review of the contract in January 2011, considering it disadvantageous for the city.

Services

Recovery slow in property sector

Recovery in the Hungarian property sector is again seen as at least a year away as the number of liquidations in the industry soared 60% last year, according to a recent report by Dun & Bradstreet Hungária Kft. The number of bankruptcies among property agencies also rose, with over 3% of such business are now likely to go bust within a year. The number of liquidations among property-related firms still outstrips the growth by a wide margin. Bankruptcy proceedings fell by a third, but the drop can be chalked up to a bad bankruptcy law rather that to an economic uptick. This seems to be also supported by figure showing a 10% rise in forced liquidations, and a 60% surge in voluntary liquidations.

Agco expands service centre

Agco has set up its IT regional service provider centre in Budapest, one year after opening its office in Hungary, the foreign trade office announced. Agco is a leading global manufacturer of agricultural equipment, tractors, combine harvesters and other equipment. The company employs at present 30 people at its Budapest service centre.

Financial services

Law on exchange-rate cap passed

Parliament decided that banks must convert by the end of August foreign currency denominated loans to forints for non-payers and, in line with an agreement between the government and the banking association, the outstanding HUF amount must be reduced by 25 percent. The law on new regulations for a rate cap on forex loans states that banks must convert the loans at the middle rate in effect between May 15 and June 15 in 2012 and it applies only if the value of the property used as collateral for the loan did not exceed HUF 20mn (EUR 69,000) at the time when it was taken out.

Those borrowers are eligible for participation in the scheme who have had outstanding arrears of at least HUF 78,000 for more than 90 days since September 30, 2011 but the bank has not yet cancelled their contract. The repayment rates are fixed at HUF 180 per CHF, HUF 250 per EUR and HUF 2.5 per JPY. These rates apply until June 2017. The difference between the fixed and market rates will accumulate in a separate account, to be paid off by the mortgagor.

This is the second phase of the mortgage rescue scheme. In September 2011 the Hungarian government accepted a new law that allowed FX mortgage holders to repay their FX loans in full on a fix exchange rate. The difference between the market and fix rate had to be covered by banks. The programme lasted until the end of February, until then 23.3% of FX denominated loans were paid back, in total HUF 1,354bn (EUR4.5mn).

Bank of China opens second branch

The Bank of China has opened its second office in Budapest. The second largest Chinese bank aims to expand in Hungary and in Eastern Europe, with Hungary as its foothold. The Bank of China arrived in Hungary in 2003. Total assets stood at HUF 60bn (EUR 200mn) at the end of 2011, with a HUF 1.2bn (EUR 4mn) profit after taxes. Hungary was first in the region to have a Bank of China office.

Research/Innovation

R&D spending to increase

National Economy Ministry State Secretary **Zoltán Cséfalvay** said that the National Development Agency (NFŰ) will announce and the Hungarian Economic Development Centre (MAG) will manage HUF 74.6bn (EUR 248mn) worth of procurement tenders for research and development, as well as innovation. About HUF 28.3bn (EUR 94mn) will be used to finance research and development, HUF 23.3bn (EUR 77mn) for technological developments, HUF 17.5bn for cooperation in R&D, and the remaining HUF 5.5bn for international cooperation in R&D. The state secretary said it is a target to increase the proportion of R&D spending in Hungary to 1.8% of the GDP by 2020 from the current 1.14%.

Telecommunication

Telecom tax challenged at the EU Court

The EC decided to refer Hungary to the EU's Court of Justice because it continues to impose a specific tax on the turnover of telecoms operators in violation of EU rules. This tax was one element of a "crisis tax" introduced in October 2010 on three major sectors of the economy (retail commerce, telecoms and energy) to improve Hungary's budgetary position. "The EC considers this tax to be illegal, because EU telecoms rules allow sector-specific charges only to cover the specific costs of regulating the sector, and not to generate additional revenue for the central budget," the EC said in a statement.

Hungary has also failed to comply with its obligation under EU law to consult interested parties in an appropriate manner on any amendments of charges applied to telecoms operators. If the EU Court endorses the EC's view on the Hungarian special levy the government will have no choice but to comply, i.e. recover nearly HUF 200bn worth of budget revenues collected between 2010 and 2012.

Frequency tender challenge rejected

The vice president of the media and communications authority NMHH dismissed objections filed by incumbent mobile phone companies to the outcome of the new mobile phone frequency tender, which was won by a state consortium earlier this year, *Népszabadság* reported. The mobile phone companies can take the matter to court, but that however will not prevent the new company from launching its service in early summer. The winning consortium consists of Magyar Posta, state electricity works MVM and state development bank MFB.

Transport

New port developments planed in Mohács

The local government has started the preparations of further development of the port and the attached logisit center as the feasibility study will be soon ready. According to the plans, in the Mohács Industrial park a site of 5.2 hectares will be developed with a port for three ships dock, and it should be able to serve ships over 1350 tons load. The amount of development is estimated HUF 16bn (EUR 53mn).

New flight links to fill the gap left by Malév

Spanish-Catalan airline Volotea Airlines, founded only weeks ago, will start Budapest-Venice flights on April 25, *Napi Gazdaság* reports. Volotea's declared aim is to focus on servicing medium-sized cities, often neglected by other airlines. Turkish Cargo airlines doubled its weekly flights from Istanbul to Budapest to two. Turkish Cargo mostly brings textiles and Far Eastern IT products to Hungary, and exports drugs and machinery as well as IT products made here. The airline is planning to replace its Airbus A310 with larger A330F planes, increasing capacity from 38 tons per flight to 64 tons. Aegean Airlines also re-established a direct flight link between Budapest and Athens. Aegean is operating four flights weekly, on Mondays, Wednesdays, Fridays and Sundays with Airbus A320s. UK low-cost airline Jet2.com begins flights between Budapest and Leeds on March 29. Wizz Air announced the launch of two new flights from June. The airline will operate 11 flights weekly to Milan's Malpensa Airport instead of Bergamo from June 17. The airline will fly twice a week to Varna from June 27 and will operate two weekly flights to the Spanish resort town Palma de Mallorca from July 1.

Energy

EDF-Démász opens first renewable energy station

Electricity distributor EDF-Démász has officially opened a 1200kW biogas power station in Szeged operated by its subsidiary Zöldforrás Energia. The facility, built from a HUF 1.3bn (EUR 4mn) investment, is EDF-Démász's first renewable energy power station, chairman and CEO Thierry le Boucher told an opening ceremony. The project received HUF 625mn (EUR 2mn) in EU funds. The power station utilises an annual 17,000 tons of silo corn and 19,000 tons of liquid animal waste, producing 7.5 GWH of energy, an amount sufficient to meet the annual electricity needs of 3,700 households.

AES closing down Tisza II power station

Hungary's fourth largest electricity power plant, the Tisza II generator in Tiszaújváros, is to be closed down from March 31. US owner AES will dismiss 101 workers and keep 30 to maintain the building and equipment. AES decided to stop production because the government has refused to buy electricity from the plant after the current contract runs out on March 31. The company bought the 900 MW capacity gas and oil fuelled plant in 1996. AES is talking with potential investors on selling the power plant, as AES-Tisza Erőmű lost HUF 5bn (EUR 16.7mn) in 2010 on revenues of HUF 52bn (EUR 173mn). AES sold its two other power plants in Hungary last year.

Retail

Retail figures beat expectations

Retail trade was up 0.6% year-on-year in January, according to seasonally adjusted data, while unadjusted figures show a 1.9% rise, the Central Statistics Office announced. The numbers surprised analysts, who had expected a decline. Sales were down 0.2% from December. Food sales were up 1.1% from one year earlier, and non-food sales were 2% higher, but fuel sales declined 2.2%. Sales of clothing and manufactured goods increased 8.4%. Online retail sales, with home delivery, shot up 32.3% year-on-year, according to unadjusted data. The retail association OKSZ considers the January figures excellent but is forecasting erratic retail sales figures for this year.

Environment

Waste management regulation challenged

Hungary is again being called out at the EC for laws and business practices that are alleged to go against EU norms, and this time the aggrieved are green. Pro Europe, an umbrella organisation for European packaging and packaging waste recovery and recycling schemes, filed a formal letter of complaint with the EC over amendments Hungary implemented to its environmental product fee law last year, which the organisation says is in violation of the EU's notification regulations. The agency also voiced its concern over Hungary's termination at the end of 2011 of a waste management financing framework spearheaded by ÖKO-Pannon Nonprofit Kft, the Hungarian member company of Pro Europe, and delegating it to a new organization, the National Waste Management Agency.

Agriculture

Cabinet to fund agricultural co-ops

The cabinet has decided to subsidise a new type of agricultural social co-operative, the government announced. The first phase will affect 800 villages in Hungary's 47 most disadvantaged regions. Residents of such areas cannot obtain subsidies through the usual process, as they have no money to write applications. The new social co-operatives will provide opportunities for self-support through various forms of agricultural work. The co-operatives will receive HUF 5mn (EUR 16,700) in subsidy from May 1 and membership will be on a voluntary basis. A total of HUF 5bn (EUR 16.7mn) is available this year for establishing such social co-operatives.

Food industry

New food safety office launched

The agriculture administration office MGSZH has been merged with the Hungarian Food Safety Office to create a new office for food safety supervision, Rural Development Minister **Sándor Fazekas** announced. The National Food Chain Safety Office will be responsible for checking all food products from the field all the way to the table. The office, which will assume all powers and duties of its predecessors, will have an annual budget of HUF 10bn (EUR 33mn). There will be no further job cuts due to the merger, state secretary **Endre Kardeván** said, after 188 positions were eliminated at the beginning of the year. The authority will provide a toll-free number for complaints.

Meat industry facing difficulties

Hungary's farmers kept a total of 3mn pigs on average in 2011, down 4% from 2010, meat industry association president **Tamás Éder** said. The number of pigs slaughtered fell 7% to 4.3mn, while imports of livestock pigs went down 42%. As the new food safety fee and the higher VAT limit the scope for legal operations, the black market is growing. Agriculture undersecretary **Lajos Bognár** rejected Éder's claim that the meat industry will pay more in food safety tax this year than in 2011. He said total fee revenues amounted to HUF 3bn (EUR 10mn) last year and will drop to HUF 1.5bn (EUR 5mn) this year.

Tourism

Tourist numbers rose in 2011

A total of 13.6 million foreigners came to Hungary as tourists last year, up nearly 2% from 2010, according to quarterly data from the Central Statistics Office. The visitors spent a total of HUF 847bn (EUR 2,8bn). However, the average length of stay became shorter, as 37% of tourists spent only one day here. The average stay of those who spent more than one day in Hungary fell to 6.6 days, from 6.9 in 2010. Most visitors came from Germany, Austria, Slovakia, Romania and the US. In addition to tourists a further 28 million visitors arrived in Hungary, of whom 15 million were transit travellers, 10 million one-day shoppers and 2 million were commuters.

Malév collapse hurting Budapest hotels

The number of guests in Budapest's five-star hotels has fallen since state airline Malév stopped flying on February 3, according to Magyar Hotel Monitor. Higher prices could not offset the 20-25% decline in the number of guests. One factor is the absence of transfer passenger guests. The hotels expect the lower room occupancy to last until April or May. Occupancy rates at four-star hotels fell 5% in February, where room prices remained stable.

Tenders

Government nudges Audi towards Gönyű port

State asset manager MNV has announced an open tender for the lease of land at the Győr-Gönyű port terminal. Applicants must submit bids to lease some or all of the 15-hectare site by May 8. Government sources have openly said they would be pleased if Audi were to build a logistics centre in Gönyű linked to its factory complex in nearby Győr.

Audi Hungaria managing director **Thomas Faustmann** said a few weeks ago that no decision had been made, but that Gönyű's chances were good. The government would like Audi to establish its presence in the port, as the EU may revoke some of the HUF 8bn (EUR 26mn) subsidy given to establish a rail link to the port, as it is not in operation, *Napi Gazdaság* adds. More information on the tender in Hungarian language:

http://www.eduvizig.hu/node/2259

Events

CONSTRUMA

International Building Trade Exposition

Date: 18-22 April 2012

Organiser: Hungexpo

More information: www.construma.hu

RENEXPO CENTRAL EUROPE

International Energy Trade Fair

Date: 10-12 May 2012

Organiser: Reeco

More information: www.renexpo-budapest.com

ÖKOTECH

International Trade Fair for Environmental Protection and Municipal Technology

Date: 15-18 May 2012

Organiser: Hungexpo

More information: www.okotech.hungexpo.hu