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Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

May 2012

Dear Reader,

The month of May was marked with the mid-term assessment of the Orbán government. According to the Prime Minister himself, the two main achievements were the new Basic Law and the economic stabilisation of the country. Indeed, at the last Ecofin meeting, the threat of possible freeze of part of the Cohesion Funds has been averted as Hungary took the necessary measures to correct the excessive budget deficit. However, Hungary will still remain subject to the EU's excess budget deficit procedure.

Hungary faces an uphill struggle, based on EC forecasts which paint a rather gloomy picture of Hungary's growth prospects, projecting a budget deficit of 2.5% of GDP this year and shrinking GDP as well. Indeed, the latest indicators give little chance for hope, the Q1 GDP contracted by 1.5%, whereas the investment dived 8.6% on quarterly basis, especially due to bad construction sector figures.

Negotiations with IMF/EU have not started yet. The debate on the independence of the Central Bank apparently has been reopened, this time due to criticism by the ECB. Now the supervision of foreign-currency reserves may be a stumbling block, and the news of a possible delay in starting negotiations brought immediately the HUF/EUR exchange rate again above the 300-mark. In order to send signals of commitment to tight fiscal policy to the markets, the government decided to speed up the preparation of the next year budget the first draft of which is to be finalised by mid-July.

As to the Embassy news, Ambassador Robert Milders was invited as a speaker to the conference titled 'The Rolling Dice Challenges and Opportunities for Hungary and the Region' organised by the Hungarian Business Leaders Forum, where key-note speakers were the former prime minister Gordon Bajnai and former minister Tamás Fellegi. The Dutch Ambassador called the attention to the need of a level-playing field for the foreign owned companies in order to maintain FDI in the country, importance of fair competition and cutting the administrative burden on the undertakings.

The month has not passed without Dutch success stories. This May, the official inauguration ceremony was held of the VIATOR Restaurant and Winery in Pannonhalma. Deputy Head of Mission Bert van der Lingen attended the meeting. The building had been designed by Dutch-Hungarian RS | Roeleveld-Sikkes Architects and last December it won the Prize of Construction Excellence. VIATOR that is situated at 120 kilometres from Budapest at the Word Heritage location of Pannonhalma Archabbey got its publicity not only in Hungary but also outside the borders of the country.

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

EU relations

European Commission on Hungarian convergence

In its 2012 report on Hungary's convergence plan the European Commission said the country continued to face "serious challenges", and progress towards meeting the 2011 Council recommendations had been "mixed". "*Hungary continues to face serious challenges in the short to medium term*," the report said. It noted the European Council's Jan. 2012 decision to pursue the Excessive Deficit Procedure issue new recommendations, which included bolstering the Fiscal Council. "*The Fiscal Council's remit has been broadened but it still does not include crucial tasks*," the report said.

The report also said the government faced a "pressing challenge" to stick to its budget targets, adding that "wider reforms also remain necessary to promote the conditions for sustainable, investment-led growth". The Commission sees Hungary's GDP shrinking by 0.3% in 2012 and recovering to a "modest growth rate of 1 percent" in 2013. "*[N]ewly specified measures in Hungary's 2012 convergence programme will further depress domestic demand*," the report said. "*In particular, in 2013 the financial transaction tax is the new measure that is expected to have the largest negative impact on the economy.*" The new tax measures also imply that inflation is likely to remain well above the central bank's target rate over the forecast horizon. "*In several areas, policy responses remained rather incomplete*," the report notes. The Commission said the budget deficit target of 2.5% of GDP in 2012 and 2.2% in 2013 "*will have to be ensured in a sustainable way*."

The EU fund disbursement should be speeded up

Speaking at a press conference, Zoltán Petykó, President of the state development agency NFÜ promised to speed up the actual payment of EU subsidies. The average length of an EU subsidised project is 650 days. It is often not the administration of the NFÜ which slows down the process, but the applicants, Petykó emphasised. Overdue claims amount to HUF 152bn (EUR 0.5bn) at the NFÜ, only half of which are due to institutional problems, he explained. The NFÜ will launch a new project monitoring system, where external experts and application preparing companies can provide advice on delayed projects. In addition, as the government is aware of the bad financing ability of local governments, a special state fund will be set up to provide matching funds to EU subsidies unavailable to local governments. The advance payment system to applicants will also be revised, allowing more early payments.

It remains to be seen whether the Commission is ready to approve a HUF 163bn (EUR 0.5bn) reshuffling of funds from infrastructure to the energy related projects. If the project implementation has not seep up, Hungary risks to loose roughly HUF 1,000bn (EUR 3bn) of EU funding.

Macroeconomic developments

GDP drops 1.5% year-on-year in Q1

GDP contracted 0.7% year-on-year in the first quarter, and dropped 1.5% from the previous quarter according to seasonally and workday adjusted figures. It was a negative surprise, caused mainly by bad construction industry performance, *Napi Gazdaság* observed.

Capital investments plunge in Q1

Fixed capital investments were down 8.6% year-on-year in Q1 and 4.2% lower than in the previous three-month period, the Central Statistics Office reported. Investment volume in October-December was only 0.4% less than in the previous quarter, *Napi Gazdaság* notes. The disappointing first-quarter data includes capital expenditures at the new Mercedes plant in Kecskemét. Only seven of the 19 major economic sectors posted growth. The construction sector suffered a 13.9% drop in investment volume in the first quarter, while machinery and equipment investments were down 1.8% from one year earlier. The Ministry of National Economy highlighted the positive trend in investments in the manufacturing sector, but growth there also slowed down to 0.7%, sharply below fourth-quarter figures. Flood protection works boosted public-sector investments to an annual 22% increase [interesting, we should find out more about that!], while the hotel and catering industry benefited from a string of hotel reconstruction projects.

The 8.6% decline confirms that there is no sign of a economic U-turn, despite government statements, and even the opening of the Mercedes plant could not change this. Major investments in the auto industry could stimulate industrial output and exports, but a weaker electronics parts sector may cancel that out, analysts believe.

Budgetary policy

Massive budget surplus in April

The state budget realised a HUF 289.3bn (EUR 0.9bn) surplus in April, thus the budget deficit fell to HUF 228.2bn (EUR 760mn) in the first four months, the Ministry of National Economy announced in preliminary figures. The deficit stood at 39.6% of the 2012 deficit target, a dramatic improvement over March when it was at 90% of the full year target.

The preparation of the 2013 budget speeded up

A conference of state secretaries opened the debate on the draft budget on May 24 and was to be followed by the first rounds of discussions in the cabinet, Economists noted that by approving main budget numbers before the June 22 meeting of European finance ministers (Ecofin), the government is demonstrating willingness to work out a sustainable fiscal adjustment programme to boost market confidence. The Ministry of National Economy disclosed macroeconomic projections for drawing up main budget numbers, predicting 1.6% economic growth and a 2.2% budget deficit next year, *Napi Gazdaság* reports. The ministry has also released its macroeconomic road map for 2013. Not only the key figures of budget chapters but the entire 2013 budget will be filed in Parliament during the summer, the government spokesman's office confirmed to *Népszabadság*. Moreover, the document will include budget plans to 2016, as a three-year forecast is now required by law. The Budget Council will have ten days to express its opinion on the first chapters of the 2013 budget chairman Árpád Kovács said. (probably in the second week of June).

Monetary policy

MNB fears for inflation target

The MNB's monetary council left the base rate unchanged at 7% for the fifth consecutive month, in line with analysts' expectations. The majority of members voted to keep the rate on hold, while one member argued for a rate cut, MNB governor András Simor told reporters after the meeting. Higher fuel prices, the weaker forint and tax hikes in the Széll Kálmán plan will make it harder to achieve the central bank's 3% inflation target in 2013, Simor remarked. Expressing doubts about a quick agreement with the IMF, Simor said the delay creates an extra debt service cost of HUF 75-100bn (EUR 250-330mn) each quarter due to higher yields on Hungarian bonds. Analysts queried by *Napi Gazdaság* expect the MNB to lower the base rate to 6.5% by the end of 2012, provided the global environment improves and an agreement is sealed with the IMF.

ECB insists on the central bank's independence

Hungary needs a "stability-oriented" monetary policy as well as "market confidence in the full independence of the central bank," the Frankfurt-based ECB said in a report published on its website. "The government should actively seek to improve foreign investor sentiment by adopting international best practices on Central Bank independence and respecting the existing contracts between private parties in the implementation of government policies," the ECB said. Now the supervision of foreign-currency reserves may be a stumbling block to an IMF agreement. BruxInfo has learned that both the IMF and the ECB regarded the 24 April deal between PM Orbán and President Barroso premature, saying the EC has given in too easily. Washington and Frankfurt primarily want to see Hungary amend parts of the Central Bank law before the talks could start that regulate the expansion of the Monetary Council and allow appointing a third Deputy Governor. While the cabinet promised none of these moves will be made as long as the current MNB Governor is in office (until March 2013), a verbal pledge will most likely not suffice for either the ECB or the IMF. Finally, the planned parliamentary vote on the amendments that were not reflecting properly the objections of the IMF has been postponed.

Employment

Lower minimum wage for youngsters considered

As the new Labour Code -taking effect on July 1- will allow the government to set a differentiated minimum wage, the government will consider the introduction of a separate minimum wage for school-leavers, the Ministry of National Economy announced. The ministry emphasised that this could be an important step towards helping school-leavers obtain jobs and thereby work experience. Among the 27 EU member states, 20 countries have a minimum wage including 11 states applying age-based differentiation, including the Czech Republic, Slovakia and Poland. Wherever it has been introduced, the percentage of employment among school-leavers has improved, the ministry has pointed out. Meanwhile, the Central Statistical Office (KSH) reported that the number of unemployed was 496,000 in the period February-April, up 15,000 from a year earlier, and producing an unemployment rate of 11.5%, slightly up year-on-year.

Competitiveness

M&A activity declines in Q1

The value of mergers and acquisitions in Hungary halved in the first quarter of the year totalling HUF 57bn (EUR 190mn), according to figures from MergerMarket. This decline paralleled the drop in M&A activity globally. The number of transactions fell from 33 to 24, a drop of 27%. The biggest transaction of the year was the sale of Fortis Private Equity, a subsidiary of property investor SCD. The second and third largest deals belong to book retailer Libri, which purchased 50% of publisher Helikon and 80.5% of entertainment listings website Port.hu.

SMEs

SME programme to get joint commissioner

The Wekerle Plan to promote SMEs domestically and the Mikó Imre Plan for ethnic Hungarian SME development in Transylvania will get a joint ministerial commissioner, state secretary Kristóf Szatmáry of the Ministry of National Economy announced in Cluj-Napoca, Romania.

Craigfalvay to promote “gazelles”

Zoltán Cséfalvay State Secretary of the Ministry of National Economy announced a new subsidy for SMEs with HUF 2bn (EUR 6.6mn) available from June The new subsidy is aimed to promote “gazelle” companies, with sustained high growth in their revenues, Cséfalvay remarked when opening the Bosch Rexroth Pneumobile Competition in Eger, organised for university teams.

Business environment

Confidence index falters, procurement index rises

Confidence among manufacturing companies improved slightly from 36 points in January to 40 points in April, but remains well below the 50 points registered in the same period of last year, according to the index compiled by economic research institute Kopint-Tárki. Indices of new orders dropped in April for both domestic and foreign markets. On another pessimistic note, growth in production is expected to slow down, based on the macroeconomic outlook. The lack of demand remains the biggest obstacle to growth in the manufacturing sector, Kopint said.

In turn, Hungary’s seasonally-adjusted Purchasing Managers Index (PMI) rose to 52.2 in May from 47.1 in April, the Hungarian Association of Logistics, Purchasing and Inventory Management (Halpim), which compiles the index. The index rose over the 50 threshold, signalling economic expansion. Among the sub-indices that comprise the PMI, the new orders index “rose sharply”, showing a rise in the stock of new orders for the second time this year and for the third time in the past eight months, Halpim said. The latest indicator should be treated with “caution” as it has been “extremely volatile” in recent months, London-based emerging markets analysts commented.

Corruption seen as commonplace

There is no effective enforcement of ethical and proper business behaviour in Hungary within companies nor at state level, a recent Ernst & Young survey of business leaders indicates. "*Hungarian companies present themselves as having anti-corruption systems but it is only window-dressing*," Ernst & Young concluded.

The survey conducted by the consultancy in 43 countries between November 2011 and February 2012. More of the 50 executives surveyed in Hungary prefer growth to ethics. However, most Hungarian executives said corruption is not acceptable even if it is necessary for a company's survival.

Corruption perceptions (%)			
	Overall	**Sector**	**Rising**
Hungary	58	24	30
E. Europe	51	17	29
W. Europe	22	5	16
Global	39	12	24

Legislation

New telecoms tax approved

Parliament passed the new telephone tax, requiring telecoms service providers to pay HUF 2 (EUR 0.007) per minute for all telephone calls and text messages, from July 1. The monthly tax may not exceed HUF 1,400 (EUR 4.7) for companies and HUF 400 (EUR 1.3) for individuals. The first ten minutes of calls by individuals in each month will not be taxed. Magyar Telekom will pay less when the crisis tax on the sector is phased out for 2013, but Telenor and Vodafone will pay more, *Népszabadság* calculated. The new tax will cost Magyar Telekom about HUF 10bn (EUR 33.3mn) in 2012, and the company will also pay HUF 24bn (EUR 80mn) of the crisis tax this year. The burden on Invitel will also increase substantially but cable TV companies will pay less.

The telecoms tax is likely to be examined by the EU, according to Tibor Szántó of law firm Morley Allen & Overy. A critical point is that the tax is paid by telecoms companies, which violates the EU's telecom directive as the law taxes roaming services as well, the prices of which are regulated by the EU.

"Reverse" VAT in grain trading

The Parliament approved a change in the VAT payment system for grain and soya trading, *Napi Gazdaság* reported. So-called "reverse" VAT payment has been extended to this sector, whereby the purchaser pays VAT instead of the seller, to prevent VAT fraud, the daily observed. The change takes effect on July 1 and will run for two years as a test. The black economy in grain trading represents about 30% of the Hungarian market, losing several tens of billions of forints in tax revenues annually, experts cited by the daily estimated.

Dutch presence in Hungary

Unilever opens HUF 2.2bn (EUR 7.3mn) facility

Unilever Magyarország opened its new HUF 2.2bn (EUR 7.3mn) 10,000m^2 freezer at its ice cream factory in Veszprém, creating 65 jobs. The project to boost capacity of the storage facility from 1,800 pallets to 12,000 received a HUF 558mn (EUR 1.9mn) subsidy through the New Széchenyi Plan. The factory produced 60mn litres of ice cream in 2011. "*This was the second phase of a development plan in which further capacities will be opened and efficiency improved by 2015*," said factory director László Szatóri. The factory exports 90% of its products, to such remote destinations as Indonesia. Exports to South and East Europe will be expanded in the next few years. "Domestic ice cream sales went up some 10% last year, mostly due to higher volumes," observed Unilever Magyarország CEO András Gyenes.

Sales of family size ice creams rose by more than 10% as multi-pack products also sold well. Concerning food seasoning products, the so-called health tax cut sales and production in the factory in Röszke, Csongrád county, Gyenes said. Prices in this segment went up 15-20%, of which 10% was due to the new tax but this has not offset the drop in sales, Gyenes pointed out.

Industry

Agropack starts HUF 1.8bn (EUR 6mn) expansion

Agropack Trió is building a HUF 1.8bn (EUR 6mn) packaging factory on a 1.8-hectare site in Kecskemét, with the help of HUF 750mn (EUR 2.5mn) in subsidies, *Napi Gazdaság* reports. The facility is intended to meet the growing demand for agricultural product and chemicals packaging. Two 1,500m^2 storage facilities, a 600m^2 packaging line and a 3,500m^2 complex unit will be built. The expansion will be completed by March 2013.

Construction/Infrastructure

Colas wins M0 renovation tender

C-M0, the consortium led by construction company Colas Hungária, will replace the asphalt on the south stretch of the M0 ring motorway around Budapest between the junctions with M6 and M7, state infrastructure developer NIF announced. Colas will lay the asphalt on 7 km for HUF 2.9bn. Construction will be completed by the autumn, until which diversions are likely. After the upgrade, the M0 stretch will have four lanes in each direction.

OLAF on-site audit at Közgép

The European anti-fraud office OLAF made an on-site audit at the Budapest offices of Közgép, the construction company owned by Lajos Simicska, news site HVG reported. OLAF confirmed that they are running an audit in Hungary and investigating Közgép. Közgép denied that OLAF seized documents and PCs at the company, in an announcement. Közgép only provided data concerning investigation of a project receiving EU subsidies, it said. OLAF visited Közgép on May 10 and has also solicited help from all participating companies, the company emphasised. The investigation concerns a project renovating the main square in Keszthely, news website Index reports. The nearly HUF 2bn (EUR 6.6mn) tender was won by a consortium of Közgép and Reneszánsz Kőfaragó as the single bidder, without announcing the tender publicly, Index added. Currently Közgép is the main target of criticism of the opposition parties, because the company has been winning outstanding proportion of public procurements in various sectors. Moreover, the owner was not only schoolmate of the prime minister but also used to be the treasurer of Fidesz once, thus now is seen as an “oligarch” and part of the “state capture” problem.

Financial services

Banks still wary of lending

Lending conditions tightened for retail and corporate clients alike in the first quarter, according to the National Bank’s latest survey on lending. There has been a rapid slowdown in demand for credit in the aftermath of the early mortgage repayment scheme, as demand for new mortgage loans dropped by half. Based on its findings, the MNB expects credit conditions for retail clients to ease somewhat as banks are vying to restore a normal balance between supply and demand.

Demand for mortgage loans may have hit bottom, the MNB commented, while demand for consumer loans may fall further in the next six months. Banks are likely to maintain strict conditions for lending to corporate clients, which is expected to keep a lid on lending growth, according to the report. Financial institutions are citing risk aversion as a reason for tightening credit.

Banking sector profits halved

Hungarian banks’ combined after-tax profit was nearly halved to HUF 31.3bn (EUR 100mn) in the first quarter from HUF 61.5bn (EUR 200mn) in the same period a year earlier, fresh data compiled by financial market watchdog PSZAF show. The data, which excludes banks that operate as branches of foreign parents as well as the Hungarian Development Bank (MFB), the Hungarian Export-Import Bank and clearing house KELER, show the banks' net interest income slipped 4% to HUF 210.6bn (EUR 680mn). Banks' non-interest income came to negative HUF 136.9bn (EUR 456mn) compared to positive HUF 16.9bn in the base period. The PSZAF data shows a HUF 224.9bn (EUR 750mn) loss under "other non-interest revenue", which includes the extraordinary tax on the financial sector.

Research & Development/Innovation

R&D subsidies of HUF 9.4bn (EUR 31.3mn)

A tender for research and development will open in mid-June with HUF 9.4bn (EUR 31.3mn) in subsidies available, Ministry of National Economy state secretary Zoltán Cséfalvay announced. The funds will be offered to teams formed by universities, research institutes and companies, he added, in remarks at the 20th anniversary celebration of the Budapest Technology University's high speed network laboratory.

CERN to build cutting-edge datacenter in Hungary

Budapest, Hungary will host the new data-processing centre of CERN, the European Organization for Nuclear Research beginning in 2013 since MTA WIGNER, the physics research centre at the Hungarian Academy of Sciences, and the Ministry of National Development has won CERN's international tender.

Telecommunication

Nine firms in race for EUR 7.3mn project

Nine companies have filed bids in the public procurement tender announced by ambulance service OMSZ to supply equipment for the emergency priority dispatch system, *Népszabadság* reported. Project value is about HUF 2.2bn (EUR 7.3mn), to be financed from the budget with EU subsidies. Sagemcom, T-Systems, Enterprise-Bull, Invitel, Getronics, Griffsoft, Indra, Net54 and Zoll are vying for the tender. Due to EU partial funding, the winner must fulfil contractual obligations by the end of 2012. There will be intense competition among companies, as state tenders in the IT sector have been less common in recent years, industry experts told the daily.

New broadband network tender

A new tender of the revised Széchenyi Plan for subsidising development of broadband networks in Hungary was announced in official gazettes, with HUF 20bn (EUR 66.7mn) available for applicants. The tender supports the EU digital agenda by establishing a high-speed broadband network covering all of Hungary by 2013, the Ministry of National Development reported. Only telecom companies registered by the media and telecommunications authority NMHH can apply. Individual subsidies will range between HUF 10mn (EUR 33,300) and HUF 3bn (EUR 10mn). Applications should be made by the end of July.

Transport/Logistics

KKK will oversee all roads

A new transport development coordination centre KKK will be set up to oversee all government tasks concerning the road network, according to a proposal by the Ministry of National Development. KKK will take over tasks from the state road manager Magyar Közút, the national infrastructure developer NIF, the state motorway manager ÁAK and the transport authority NKH. KKK will maintain and develop roads using revenues from road tolls and from its properties, without state subsidies.

Rudolph building Győr logistics centre

German logistics group Rudolph is building a logistics centre in Győr for EUR 12mn, as its existing Hungarian sites cannot be expanded further. The over 20,000m^2 hall will create more than 100 jobs. One of Rudolph's major clients is the Audi factory in Győr. The subsidiary Rudolph Autóipari Logisztikai has five logistics centres in Hungary, employing 270 workers.

Útiber-Uvaterv wins rail contract

The Útiber-Uvaterv consortium has won the contract to upgrade railway track between Százhalombatta, Pest county and Pusztaszabolcs, Fejér county for a net HUF 1.3bn (EUR 4.3mn). The project includes laying new track between Százhalombatta and Ercsi in Pest county, and modernising train stations. After the renovations, trains may travel along the track at up to 160 km/h.

Chinese to build an express train line

In what seems to be the only major business deal flowing from the visit to Budapest earlier this month of a big delegation of Chinese officials, Hungary and its national railway company MÁV recently signed a cooperation agreement with China's state railroad company to build an express train line linking Budapest's Liszt Ferenc International Airport with the city's Keleti Railway Station. At the time of the announcement, Index.hu noted that the current plan – which will supposedly involve the Chinese co-financing the HUF 40-50bn (EUR 133-166mn) project, with the participation of Chinese contractors – replaces an earlier concept in which a Chinese group would have built and operated the link as a concession. Apparently, that plan was scrapped after some Chinese experts visited Hungary and left convinced that such an investment would take too long to pay out. And note that this plan followed several others involving putative Hungarian investors – most notably property magnate Sándor Demján's idea of linking it with another as-yet-unbuilt mega-project adjacent to the rail yards behind Pest's other major rail terminal (Nyugati). It is worth recalling that the bankruptcy and liquidation of Malév also involved a similar "China card," in the form of supposed interest in the flailing flag carrier on the part of Chinese airline Hainan.

Energy

Agreement on Slovak gas pipeline link

Magyar Gáz Tranzit and its Slovak counterpart Eustream signed a contract on building a 115km gas pipeline connecting the networks of the two countries. The total project cost is EUR 160mn, of which EUR 30mn will be financed by EU subsidies. State electricity works MVM, the owner of Magyar Gáz Tranzit, confirmed that 94km of pipeline will be laid in Hungary and 21km in Slovakia. Eustream is owned by E.ON and Gaz de France. The pipeline will be built by 2015, with annual capacity of 5bn cubic metres in both directions.

Ethanol Europe bulding in Mohács

Ethanol Europe, a Luxembourg-registered company, has laid the foundation stone of its new factory in Mohács, Baranya county. Construction will be completed by the end of 2013, CEO Mark Turley of the subsidiary Pannónia Ethanol Mohács told the ground-breaking ceremony. The new ethanol factory will create a market for corn farmers near the town. Ethanol Europe, owned by the Fagen family of the US and the Turley family from Ireland, opened a similar factory in Dunaföldvár, Tolna county a few weeks ago. Both facilities can produce an annual 240 mn litres of bio-ethanol and 175,000 tons of fodder.

Orbán to oversee expansion of Paks

Prime Minister Viktor Orbán will lead a three-member committee that will prepare strategic decisions on the proposed construction of new reactor blocks at the Paks nuclear power plant, it was announced. Development Minister of National Development Zsuzsa Németh and Minister of National Economy György Matolcsy will be the other two members. The cabinet aims to prepare the construction of two new reactor blocks by 2020-30, the government spokesman's office said. The government views the expansion of the nuclear power plant as essential in terms of security of energy supply and a priority in economic considerations, the office added. Hungary's nuclear capacity will become sustainable in the next decades with the expansion of the reactor blocks, which will add 2,000-3,000MW of capacity to the system. The current reactor blocks will be shut down in 2037, *Népszabadság* notes. Industry experts put the cost of the expansion project at HUF 1-3tn (EUR 3.3-10bn). The Paks plant generates 40% of Hungary's energy needs.

MOL to boost investment in Kazakhstan

MOL will invest USD 250mn in addition to USD100mn to start oil production in Kazakhstan starting in 2015, CEO Zsolt Hernádi said. Hernádi was presently in the delegation of Prime Minister Viktor Orbán, on a two-day official visit to the country. MOL acquired a 27.5% stake in the Kazakh project in 2004. After a few years, MOL took over leadership and now its own experts are in charge of explorations. In a separate event, talks were held between BP and FGSZ, the gas transport subsidiary of MOL, on how gas from the proposed South East Europe Pipeline (CEEP) could be transported to additional Eastern European countries via the existing network, *Népszabadság* reports. CEEP would transport 10 billion m3 gas annually from the Turkish-Bulgarian border through Romania and Hungary, BP spokesman told Népszabadság.

Retail

Online shopping reaches HUF 155bn (EUR 516mn)

The total value of goods bought online reached HUF 155bn (EUR 516mn) last year, research institute GKI reported. The 1.4 million people who made online purchases amount to 35% of the population above age 14. The leading products sold are food or food-related goods, GKI pointed out. According to forecasts, the online market for goods may reach HUF 175-180bn (EUR 583-600mn) this year, or 2.9-3% of total retail sales.

Environment/Water

Bids invited for moveable dam

Budapest has formally invited bids for design and construction of a movable dam for the Third District. The barrier is needed to protect property developments built upstream of the present dam along the Danube. Where no new permanent dam can be built a movable solution will be installed. The construction would cost an estimated HUF 2.7-4.8bn (EUR 9-16mn).

EU might look into waste market

Foreign waste management companies object to the planned confiscation of the market, CEO of the waste management company association HOE said. According to market rumours, companies are increasingly considering turning to the competition authority of the EU to launch a new impeachment procedure against Hungary concerning the coming waste management law. The earlier partial nationalisation of the sector generated resistance among waste management companies. In order to avoid EU disapproval the government has forwarded its new bill to Brussels. The new bill could be approved between mid-July and mid- September, *Napi Gazdaság* reports.

Agriculture

Government shuffles wine marketing

State agriculture marketing organisation Agrármarketing Centrum will merge into state tourism agency Magyar Turizmus which will subsume its wine marketing tasks from July, the Rural Development Ministry informed *Napi Gazdaság*. Magyar Turizmus will receive the budget funding of Agrármarketing Centrum for the second half.

Food industry

Alfold Pro-Coop completed its new storage facility

Alfold Pro-Coop, a food wholesaler, has completed a new 3,700 m^2 storage facility in Kecskemet (central Hungary). The company received an HUF 162mn (EUR 557,000) grant from EU structural funds. The whole investment was HUF 462mn (EUR 1.58mn). The company, set up in 1992, supplies Coop stores with fresh milk, meat products, frozen poultry meat, and other frozen food products. Coop Gazdasagi Csoport, the mother company of Alfold Pro-Coop, is a domestically owned retail franchise system. Co-op Hungary is the owner of the franchise rights. Sales revenues at the group level was HUF 510bn (EUR 1.75bn) in 2011.

Ministry discusses milk crisis

The Rural Development Ministry is negotiating with retail chains to find a joint solution for a developing crisis on the milk market, said state secretary of the ministry Gyula Budai. The strategy includes penalties on chains imposing unfair pricing and a joint promotion campaign of milk products. The state will increase the amount of milk it provides to pupils. Milk producers facing problems will be paid advance payments and food safety audits will be launched. Consultation with retail chains will be held every second month.

Tourism

Budapest 11th on conference list

Budapest was the 11th most popular host city for conferences in 2011, according to the International Congress and Convention Association, rising from 18th in 2010. Prague came 14th and Brussels 17th, while the top three were Vienna, Paris and Barcelona, in that order. Budapest hosted the most conferences with 300-400 guests.