Hungary Economic News Letter

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Dear Reader,

Hungary's outlook for obtaining IMF support before the 2014 elections remains clouded a year after contacts were resumed. Meanwhile the government announced the third package of austerity measures in order to reach the necessary cuts in the budget deficit in 2013, as the main political goal of the Orbán government has been to get rid of the Excessive Deficit Procedure next year. Earlier on, the IMF and EU found the latest Hungarian measures to reduce deficit insufficiently sustainable, the third package of new measures was announced in November. The new measures include the institutionalisation of the bank tax, as well as higher taxes on energy and utility companies that are expected to bring in HUF 70bn (EUR 247mn). The final vote on the 2013 budget will take place in mid-December only. Meanwhile the GDP figures for the third quarter have been published, which show continuation of the recession in Hungary. The weak growth outlook and new unorthodox policies prompted Standard & Poor's to cut Hungary's credit rating deeper into "junk" status. Despite the down-grate the selling of the state bonds went smoothly with bond-yields better than expected, and the HUF's exchange rate stayed stable throughout whole November.

This month was rather eventful for the Embassy. First a round table was organised by the Transparency International on their study of the Revolving doors phenomenon, which was financially supported by our Embassy. The study examines four case-studies: the situation in 4 countries that could be seen as best practices, including that of the Netherlands.

Then the Embassy in co-operation with the Port of Rotterdam participated in the Translog Connect Congress and Exhibition. On the margin of this event, a working dinner was organised at the ambassadorial residence for a mixed group of Dutch and Hungarian logistics companies where the key issues of the sector and bilateral co-operation possibilities were discussed.

Last but not least, former Dutch Prime Minister Jan Peter Balkenende visited Budapest from 28-30 November, upon the invitation of the Károly Gáspár Reformed University, where he delivered a speech. He also met amongst others with Prime Minister Viktor Orbán, Minister Zoltán Balog. Professor Balkenende also paid a visit to the legendary football club Ferencváros, where he met Dutch coach Ricardo Moniz and Dutch players Mark Otten and Julian Jenner. Finally the former Prime Minster held his speech at a Business Breakfast organised jointly with the Dutch-Hungrian Chamber about Corporate Social Responsibility. In his speech he stressed the importance of the sustainability that has become a moral guideline and business driver.

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EU relations

National Development Agency acts to preserve EU funds
The danger that Hungary would have to give back HUF 14.1bn in EU funds has been averted, as the government has sent its accounts for the relevant projects to the EC, state development agency NFÜ announced. At stake is HUF 5.9bn (EUR 20mn) in EU subsidies for the Danube port development in Gönyű near Győr, and HUF 8.2bn (EUR 28mn) for Tisza river flood protection works in Borsod-Abaúj-Zemplén county. Earlier, Audi decided not to invest in the Gönyű port.

EC rules against Hungary's "crisis" taxes, voucher system
The EC sent reasoned opinions to Hungary asking the country to amend legislation on special taxes applied to the retail and the telecommunication sectors and to end restrictions on luncheon voucher issuers. These infringement procedures against Hungary have now entered their second phase, the Commission said. The EC said it considered Hungary's special taxes to be discriminatory, as they fall disproportionately on non-Hungarian operators.

"Hungary imposes progressively increasing tax rates on all retail companies and on all telecommunication companies according to their annual turnover. Due to the design of these tax rates and the structure of the two markets, domestic companies are in practice given preferential treatment and the taxes are mainly borne by foreign-owned companies," the EC said.

Hungary is requested to change its legislation within two months to bring it in line with EU law. Failing this, the EC may refer the cases to the EU's Court of Justice. The EC has also decided to take action to ensure the freedom of establishment and freedom to provide services of issuers of luncheon, leisure and holiday vouchers in Hungary. It asked Hungary to put an end to unjustified and disproportionate restrictions.

Macroeconomic indicators

State debt drops to 77.1% of GDP
Hungary's gross consolidated state debt stood at HUF 22.2trn (EUR 77.8bn) at the end of the third quarter, equal to 77.1% of GDP, and down from HUF 22.9trn (EUR 80.5bn) one year earlier, according to preliminary data from the MNB. Net borrowing amounted to HUF 180bn in the period, but the debt fell by HUF 149bn due to the stronger HUF. Gross state debt peaked at 85.3% of GDP in the middle of 2010 and had dropped to 80.8% at the end of 2011.

Recession continues
Hungary's GDP fell 1.5% year-on-year according to figures in the third quarter of 2012, the Central Statistics Office (KSH) said. GDP was significantly affected by a contraction in agriculture. GDP fell for the third quarter in a row in a quarterly comparison, meaning a recession that started in Q1 2012 continued. The figures were worse than the expectations of analysts polled by the financial daily *Napi Gazdaság* who had expected a 0.2% quarterly increase. The drop came after a 1.6% increase in 2011.

Economic policy

The third austerity package unveiled
Minister György Matolcsy (National Economy) unveiled his third austerity package in two months on October 29th. The new utility tax will extend to all types of utility infrastructure except households. The expected revenue is 30bn HUF, the levy on Szerencsejáték Rt, the public company with a monopoly on games of chance will be raised (10bn HUF) as well as the tax on the profit of utility companies (HUF 40bn or EUR 141mn). The new package is to reduce the deficit to 2.7% of GDP for 2013.
Iryna Ivaschenko (IMF representative to Hungary) told the *Wall Street Journal* that some measures in the three government packages announced in the past six weeks are not sustainable and do not help economic growth. Budget adjustments should not be based on improvisations, she added.

Government to take over the municipal debt
Recently Prime Minister Viktor Orbán announced that the state would take on the debt owed by all communities with fewer than 5,000 inhabitants, assuming more than HUF 600bn (EUR 2.12bn) total debt of nearly 2,000 municipalities. *Népszabadság* presumes that the latest burden placed on banks will probably be discussed in talks with the IMF and EU, if talks resume at all. Banks could face massive losses, running as high as HUF 100bn (EUR 35mn), if the state requests discounts from them when taking over the debt of local governments, *Népszabadság* reports. The state would pay only 75-80% of the value of what it deems bad or risky loans held by local governments to banks in the process of assuming the debt of municipalities, according to information from Fidesz politicians.

Government signs further strategic agreements with large companies
The government announced that is planning to sign an agreement of strategic co-operation with Microsoft. To date, the administration has negotiated such agreements with six large companies in order to broaden the investment activity of the respective enterprises in Hungary.
On 27 November, Prime Minister Viktor Orbán signed a partnership agreement with Hankook Tire, a producer of pneumatic tyres. The cabinet has already made similar strategic deals with Coca-Cola, Richter Gedeon, Alcoa-Köfém Kft., Daimler AG and Magyar Suzuki and several new ones are under preparation.

Budgetary policy

Economy Ministry expects budget to pass in mid-December
Parliament will pass a finalised budget for 2013 by the middle of December, the Economy Ministry announced. The bank tax will amount to HUF 81bn (EUR 282mn) this year, as banks deducted HUF 101bn (EUR 354mn) from their tax base due to the early repayment of mortgages scheme. The financial transaction tax will bring in HUF 144bn next year. Deputy state secretary Péter Banai said the government set a conservative estimate for 2013 interest payments.

There is still a potential HUF 350bn (EUR 1.2bn) hole in the budget, former Finance Minister Péter Oszkó commented. He said the greatest risk to the target is the possibility that the European Court of Justice will declare Hungary's telecoms tax illegal, forcing the government to repay HUF 180-200bn to telecoms companies. The estimated HUF 75bn (EUR 260mn) in revenue from the electronic road toll system is also in doubt, due to the delay in the tender process, Oszkó said. The 2013 budget deficit target of 2.7% of GDP may be reached however.

In a letter sent to Olli Rehn, the European Commissioner for Economic and Monetary Affairs, Economy Minister György Matolcsy said the new government measures announced will fill the gap between the government's forecast of a 2.7% of GDP budget deficit for 2012 and the European Commission forecast of 2.9%. The tax measures add HUF 480bn to 2013 budget revenues, but the job protection plan will cost HUF 240bn (EUR 0.8bn) and the cancellation of the progressive element in employees' income tax – the phasing out of the so-called super gross – will cost HUF 110bn (EUR 0.38bn) in fore-gone revenue, *Napi Gazdaság* estimates.

As to the 2012 budget, Minister Matolcsy filed a bill in Parliament to modify the 2012 budget, setting a record of nine modifications in one year. The new budget deficit target is HUF 671.8bn (EUR 2.37bn). The modification allows the state to take over HUF 95.7bn (EUR 0.33bn) of debt from local governments. The modification does not affect the EU budget balance, as it is a reallocation within the government sector.

Monetary policy

MNB cuts rate to 6%

In line with forecasts, the MNB's monetary council cut the base rate of the central bank by 25 basis points to 6%, by a vote of four (all external members) to three (all internal members), at its meeting last meeting of the month. The council still sees that inflation will exceed the 3% medium-term target in both 2012 and 2013, but seems attainable in 2014, MNB governor András Simor announced after the meeting. October inflation was better than forecast, thanks to non-core inflation effects such as the fuel price decline. Crisis taxes may increase pressure on prices, and reduced banking sector ability to attract capital will cut back on credit, thus the outlook on medium-term inflation is worsening, Simor concluded. An IMF agreement is needed to make state debt sustainable and keep yields stable, the council argues. Inflation eased to an annual 6% in October from a more-than-four-year high of 6.6% in September. The central bank aid it could reach its price target sometime in 2014.

Employment

Fewer unemployed in October, but business sector employment down

The number of registered unemployed was 523,000 in October, down by 7,700, the National Employment Service announced. The number out of work for over a year increased by 20,000 to 153,000. If public works schemes and seasonal employment stops at the end of the year, the number may rise to nearly 600,000, based on the pattern of recent years, business website Portfolio adds.

However, the number of employees in Hungary's business sector, which includes private as well as state-owned companies employing at least five people, fell 1.9% in the twelve months to September, dropping for the 10th month in a row, data published by the Central Statistics Office (KSH) show. According to the KSH's report, the number of employed in the 15-74 age group was 3.935 million. The increase in activity rate is due to tougher regulations on early retirement and disability pensions.

More funds for public works next year

Some HUF 145bn (EUR 0.5bn) will be allocated for public works projects next year, up from HUF 132bn (EUR 43mn) this year, Interior Minister Sándor Pintér announced. Addressing leaders of local governments that have been most active in organising such projects, he said the aim is to provide work for 300,000 people over the next two years, up from 270,000 at present. Apart from agricultural work, other projects will make public works projects possible all year round. According to the experts, the main problem with the current scheme of public employment is that they do not increase the employability of those involved.

Competitiveness

More companies close, less start

According to company-data compiler Opten, that a total of 3,103 companies across the country had been terminated in October – the highest monthly number since the summer of 2010. Meanwhile, Opten's figure revealed that an average of just 2,400 new companies have been started each moth over the past six months, a drop of 40% from last year.

Trade agency sees more investments

State investment and trade agency HITA has approved 15 projects this year generating EUR 310mn (HUF 87.7bn) in new investments, president Erzsébet Dobos told *Napi Gazdaság*. The projects would create 1,924 new jobs, she added. Six of the 15 projects have not been disclosed yet and could create additional investment value and new jobs. HITA currently manages 90 investment projects, which if implemented could generate EUR 1.7bn in investment and create 17,000 new jobs. HITA has also played a part in helping some 2,200 businesses access export markets. The increase in export sales of these companies could reach EUR 46mn over three years, Dobos projected.

MOL second largest company in region

A total of 65 Hungarian companies were included in the CEE TOP 500 list, grouping Central Europe's 500 largest companies by loan insurer Coface. MOL was ranked number two with revenues of EUR 17.1bn (HUF 4.8trn) in 2011, behind Polish sector peer PKN Orlen with EUR 24.1bn. Audi Hungaria, ranked 11th, was the only other Hungarian company to make it to the top 20, with revenues of EUR 4.7bn (HUF 1.3trn). GE Hungary ranked first with EUR 286mn (HUF 80bn) in profit, followed by Audi with EUR 237mn (HUF 67bn) and MOL with EUR 185mn (HUF 52bn). Polish companies dominated the survey, Hungary was the third based on the number and turnover of the companies.

SMEs

More funds for SMEs

Nearly HUF 300bn (EUR 1.1bn) will be channeled to Hungary's small and medium-sized enterprises and their employees in 2013, the Parliamentary Economic Committee told a press conference. Antal Rogán said that the government will take a number of measures within its job protection programme in an effort to not only retain jobs but create new employment. He insisted that the job protection programme together with faster allocation of EU subsidies will contribute to economic growth and a higher employment rate. Concerning tax benefits to SMEs, Rogán said that from next year on self-employers with an annual income below HUF 6mn (EUR 21.000) can opt to pay a monthly HUF 50,000 (EUR 180), which will cover all taxes. Small companies with less then 25 employees will also be offered an option involving a significant benefit, Rogán added.

Business environment

Business sentiments slightly improved

Business and consumer expectations improved slightly in November from the previous month, but companies and households remained pessimistic, a fresh survey by GKI shows. The GKI-Erste combined business-consumer index rose to -22.4 points in November from -24.6 points in October. Pessimism was most marked in the construction industry, but building companies still planned more hires, and confidence in the sector was the highest since the middle of last year. The gauge of sentiment in the trade sector reached a high for the year. Retailers' and wholesalers' assessment of their sales positions and the outlook for orders improved, although they said inventories were slightly higher. Businesses' outlook for the Hungarian economy improved after a big deterioration earlier, but the bigger part of the respondents still expects a turn for the worse. Households' fear of unemployment waned, and their outlook for their financial situations as well as their ability to make savings improved, but fewer planned big-ticket purchases in the coming year.

NAV reports on its fines

Tax office NAV said it has fined approximately 30,000 companies for not keeping up with their tax paperwork, and levied fines of more than HUF 3.5bn (EUR 123mn) for the infractions. The NAV also said it has moved to remove almost 50,000 firms from the official company registry. The National Tax and Customs Authority also revealed that a series of inspections it had engaged in suggests that the number of companies employing undeclared workers has jumped significantly in the last year. In all of 2011 they found 2,741 firms with "black" workers, while just by mid-October they've seen more than 4,000.

Hungary slips to the 118th place on Paying Taxes ranking

Although positive changes were observed in Hungary's taxation environment, the country still slipped to the 118th place from the 114th in the Paying Taxes ranking of the World Bank, IFC and PricewaterhouseCoopers (PwC). Hungary's tax system is so complicated that compliance hours, i.e. the time to deal with labour taxes and social contributions, are longer only in three eastern European countries. Globally from June 2011 to June 2012 Doing Business recorded 31 reforms making it easier or less costly for firms to pay taxes. Sixteen economies mandated or enhanced electronic filing, eliminating the need for 196 separate tax payments and reducing compliance time by 134 days (1,070 hours) in total in the latest Paying Taxes 2011/12.

Legislation

New approach to expatriates income tax

The NAV 's statement, published on its website on 31 October 2012, outlines a new approach to the taxation of income related to expatriates, classified according to the OECD Model Double-Tax Convention as income from employment. The new approach applies when determining in which country the income from employment of expatriates seconded from foreign countries to Hungary or from Hungary to foreign countries will be taxable.

In addition to the previous criteria (so-called 183-day-rule, the party bearing the costs of employment, and whether these costs are cross-charged) a more complex examination of the circumstances of employment will also be necessary in order to determine which country has the taxation right of the employment income. This will be based on the new concept of "economic employer."

According to the new rules, an integration test must be performed as the first step toward identifying the economic employer, in which it is examined whether the expatriate's activities are integrated into the activities of the receiving company. The tax authority will establish integration on the basis of which company is responsible and bears the risk for the results of the employee's activities. If the test shows that the legal and the economic employer are different, a further examination of the employment relationship will be required according to a complex set of criteria. The criteria include which company: is entitled to give instructions to the employee, provides the employee with the tools needed for work, or is entitled to apply sanctions on the employee under labour law. All the above criteria must be examined jointly and may not be prioritised.

The new approach might result in a situation in which Hungary is entitled to tax on a foreign individual's income acquired from work performed in Hungary, even if the employment in Hungary does not exceed 183 days, the related costs are borne by the seconding company and will not be charged to the Hungarian company.

Dutch presence in Hungary

Participation of RNE and Port of Rotterdam at Translog Connect Congress

The Embassy in co-operation with the Port of Rotterdam participated in the Translog Connect Congress and Exhibition in Hotel Corinthia in Budapest on 28-29 November. This regional cross industrial logistics, transportation and supply chain management event for the entire Central and Eastern European region gave the participants the possibility to meet European industry leaders giving keynote presentations and case studies and provided them with the most up to date market insights combined with pre-scheduled one-to-one meetings and informal networking opportunities. In the framework of Translog, a working dinner was organised at the ambassadorial residence for a mixed group of Dutch and Hungarian logistics companies where the key issues of the sector and bilateral co-operation possibilities were discussed.

Automotive

ContiTech opens Nyíregyháza plant

Phoenix Légrugó Technológia, a subsidiary of Continental ContiTech, has opened a HUF 1.4bn (EUR 4.7mn) plant for the production of rubber compounds in Nyíregyháza, creating 25 jobs. ContiTech director of technology Peter Scholtissek told the inauguration ceremony that the investment will boost production at the rubber and plastics company's other plants in the region, as well as helping to meet the demands of external customers. ContiTech has an existing unit in Nyíregyháza, where the company makes air spring systems, another in Makó and a third in Carei, Romania.

Construction/Infrastructure

New Building Energy Strategy prepared

The Ministry of National Development is to prepare a National Building Energy Strategy, to be completed with assistance from ÉMI Construction Quality Control Innovation Non-profit Kft. Harmonised with the directives of the European Union, the policy document will record long-term concepts for the energy-efficient renovation of the existing buildings and the construction of new energy-saving edifices. The strategy will be a significant guide to planning building energy improvement projects. Approximately 70% of Hungary's 4.2 million buildings require renovation; with every tenth building should be completely rebuilt. 40% of the energy used relates to buildings in poor condition, and two-thirds of the additional energy is used for heating and cooling.

In Hungary the highest amount of carbon dioxide is emitted by buildings, considerably exceeding both industry and transport. A 30% cut in the heat demand for buildings by 2030 is a government objective asserted on several occasions, as it will reduce Hungary's prime energy requirement by more than 10%. As a first step, the energy condition of Hungary's buildings will be mapped on the basis of the available data and specific surveys. Within the framework of the National Building Energy Strategy, an economic impact analysis and a strategic environmental analysis will also be made in order to size up the funding requirements and financial impacts of subsequent renovation projects. As one of the most significant results of the strategy, a building energy register will be set up for the purposes of recording and analysing the surveyed inventory of buildings.

The results of the overall survey of building energy conditions and the establishment of a dynamic building energy database will allow the compilation of an efficient support and financing programme for the next few years. Among other things, the strategy will also lay the foundations of the opportunity for the elaboration of a complex rating system for buildings.

Services

Four bids for emergency call tender

Four bids have been filed for a tender to establish an emergency call centre with a “112” dialling code. M&S is offering Huawei technology for HUF 700mn (EUR 2.3mn), the domestic company Enterprise would bring in Siemens systems for HUF 800mn (EUR 2.7mn), T-systems has proposed Alcatel technology for HUF 860mn (EUR 2.9mn), and Net54 would establish Avaya systems for HUF 900mn (EUR 3mn), *Népszabadság* has learnt. Sources in the interior ministry said that Enterprise could be the winner.

Financial services

Bankers see gloomy future

The government measures affecting banks in Hungary negatively will force several parent banks to review their strategy and these could lead to pull-outs, the merger of units and the closure of branches, warned Dániel Gyuris, acting Chairman of the Hungarian Banking Association. The association, however, hopes that such unfortunate outcome will be avoided, trusting that besides focusing on reaching the budget deficit target there will be room in the cabinet’s economic policy for measures to stimulate growth, Gyuris told local daily *Népszabadság*. Several parent banks are considering reviewing their strategy in light of recent Hungarian government measures. This may include complete withdrawal from Hungary, mergers and the closure of branches, he said.

Earlier this month the chairman of the association, Mihály Patai, resigned after the government unveiled budget adjustments worth HUF 764bn (EUR 2.7mn) for next year, including the extension of the bank levy. He blamed the government for reneging on a deal not to unilaterally adopt measures impacting the banking sector. The bank tax and financial transaction tax together amount to 12-13% of the entire capital of the Hungarian banking sector, OTP vice president László Bencsik commented. As the sector lost HUF 330bn (EUR 1.1bn) last year it may not be able to bear the tax burden, he added.

Raiffeisen threatens to leave Hungary

Raiffeisen may leave Hungary if the government’s attitude toward banks does not change, CEO of Raiffeisen International Herbert Stepic said. Stepic, the chairman of Raiffeisen Hungary, told German newspaper *Börsen Zeitung* that the government treats banks as a self-service shop. Magyarországi Volksbank will close 11 of its 62 branches, the Austrian-owned bank announced. Volksbank and Citibank also decided to cut the number of its units. For instance, Citibank announced closures of its branches in Békéscsaba, Szombathely and in Budapest’s 21st and Fourth Districts.

Research/Innovation

New Research and Innovation strategy to be developed

The Government will discuss the National Research, Development and Innovation Strategy – state secretary Zoltán Cséfalvay from the Ministry for National Economy announced at a conference in Szeged. Establishing a production system of high added value in Hungary has been in the focus of this strategy, the politician said at a conference organized by the University of Szeged. Cséfalvay stressed that the goal of increasing the number of domestic researchers from the current 37 thousand to 56 thousand is within reach. As from next year, enterprises employing a researcher with a PhD title, estimated to be applicable to 1300 employees, will be exempt of paying social contribution tax, which step will facilitate reaching this goal.

In 2012, R&D expenditures amounted to 1.2% of GDP or HUF 336bn (EUR 1.2bn), the highest figure in two decades. The share of the private sector in this regard has been increasing steadily, last year it was HUF 160bn (EUR 565mn); 120bn HUF originated from the state and the rest came from international resources, Cséfalvay added. It has been the strategic objective of the Government that R&D expenditures shall reach 1.8% of GDP by 2020, and aim to get thirty significant R&D centres enter the world league as well as to help the same number of multinational enterprises establish development facilities in Hungary.

Telecommunication/IT

T-System to digitalise archives

The National Archives, the Budapest Archives and the national info-communication service-providing company NISZ have signed an agreement with T-Systems Magyarország to digitalise the archives for HUF 2.9bn (EUR 10mn), fully paid by the EU. Hungary will adopt technology from the UK, Germany and Austria for this project.

Software supplier XAPT expands

Software developer XAPT Hungary expects to close 2012 with HUF 6bn in consolidated revenue, a two-fold increase from 2011, *Napi Gazdaság* writes. The company is a leading provider of Microsoft Dynamics Enterprise Resource Planning (ERP) software for the automotive, energy, retail and utility sectors. XAPT Hungary, founded in 2000, doubled staff this year and expects further hires in 2013.

Environment

Hungary to sell carbon quotas

The National Development Ministry agreed with the operator of the European Energy Exchange to auction off Hungarian CO2 emission quotas. Hungary could sell carbon credits equal to 2.5 million EUA (European Units of Account). Given an average selling price of EUR 7-8 per EUA, Hungary could generate some EUR 15-20mn, (HUF 4-5bn) in budget revenues, calculates *Napi Gazdaság*. The Ministry sold 2.5 million EUA between May and June at an average sale price of EUR 6.73.

Transport

Ryanair reducing Budapest operations

Ryanair will drop 10 of the 30 routes operated from Budapest from its winter schedule and reduce services on nine others, lowering the number of its weekly flights from 280 to 170 from January 10, CEO Michael O'Leary announced at a press conference. Flights to Baden, Birmingham, Bologna, Düsseldorf, Krakow, Lübeck, Malaga, Munich, Oslo and Thessaloniki will be eliminated from the winter schedule. The low-cost airline will base three rather than the current five aircraft in Budapest from January. O'Leary blamed high landing and navigation fees, the latter charged by HungaroControl, for the move, warning that passenger traffic will fall by 800,000 annually. Ryanair's decision is a blow to Budapest Airport, which has tried to rebound from Malév's bankruptcy by luring low-cost airlines, *Népszabadság* writes.

On the positive account, SAS will begin flights linking Budapest to Copenhagen and Oslo Gardmonen airport from March 31, the Scandinavian airline announced. SAS plans 45 new flight routes in 2013.

Konica Minolta brings logistics centre

Konica Minolta will set up its 5,000m^2 logistics centre in Hungary for servicing 15 countries in east and central Europe from the M1 Business Park Páty, near Budapest. Both sales and the market grow, the Japanese company explained. Full capacity is to be reached in August 2013.

Logistics company expands

German logistics group Duvenbeck IMMO Logisztikai is expanding its warehouse storage area by 7,200m^2 at its logistics centre in Kecskemét by March 2013 from a HUF 1bn (EUR 3.3mn) investment, managing director Attila Kórusz has announced. The investment began on an eight hectare area. With the new investment, Duvenbeck IMMO will serve the needs of the nearby Daimler factory.

Harbours transferred to City Hall

Riverside properties and harbours owned by Budapest districts will be transferred to City Hall free of charge from January, under a decision made by Parliament. In explaining the decision, Interior Minister

Sándor Pintér spoke of the need for a unified city image and the need to develop transport. MPs also decided that mayors may not hold any other position, with the exception of scientific, educational, artistic and legal protection activities. In addition, mayors may not take positions as leading officials of companies without the assent of local councils.

Energy

MVM preparing for Paks expansion

The government is to invite bids for the expansion of the Paks nuclear plant later this year or early in 2013, *Napi Gazdaság* reports. Sándor Nagy, head of MVM Paks II, a project company founded by state electricity company MVM with HUF 9bn in capital, said the company will lead and oversee the project from beginning to end, from drawing up ten-der requirements to the financial aspects and technical implementation. The power plant is to be enlarged with two new blocks of 1,000-1,600MW each. One of the requirements is that Hungarian suppliers account for at least one third of the design and construction work, Nagy added. MVM may issue bonds or draw on bank financing, with the most probable form being a complex syndicate loan or a loan from the European Investment Bank, *Napi Gazdaság* comments. So-called Build-Own-Transfer financing is also an option, where lenders are paid back after revenues from the project are received.

New tax on utility infrastructure is foreseen

Hungary's government may be able to beef up state coffers by double as much as it hopes to gain on the new tax to be imposed on utility infrastructure, local daily *Népszabadság* reported. The cabinet expects the new levy to generate HUF 30bn (EUR 106mn) annual revenues for the budget. The biggest chunk of the tax will be paid by electricity providers and telecommunication companies - HUF 20bn each, the paper estimates. According to its calculations, oil and gas group MOL will have a HUF 700mn (EUR 2.4mn) obligation. Water and sewage companies will have a payment obligation of HUF 12.5bn (EUR 44mn), gas suppliers will pay HUF 8-9bn into state coffers and the levy will cost district heating companies HUF 200mn annually. And budget revenues from the new tax may grow further. Hungarian Electricity Works (MVM) and MOL would not have to pay on their central gas and electricity networks, but Economy Minister György Matolcsy has already submitted an amendment proposal that would extend the new levy on these two companies too. *Népszabadság* estimates MOL's obligation at HUF 700mn (EUR 2.4mn) a year from 2013. Due to the central price setting electricity, gas and water providing utilities will not be able to pass on the tax onto customers, because the cabinet will almost certainly not consent to this move. Therefore they will be forced to save on maintenance.

State to take over the natural gas units of E.On

Prime Minister Viktor Orbán and E.On CEO Johannes Teyssen signed a declaration of intent on the transfer of E.On assets in the Hungarian natural gas industry to the Hungarian Electricity Company (MVM). Price and conditions will be negotiated until 15 December, and the shares of the two companies (E.On Földgáz Trade and E.On Földgáz Storage) will pass into state ownership by 31 January 2013 at latest. Purchasing back the natural gas companies, privatised in 2005, forms part of a government strategy aiming to reduce monthly household expenses through the establishment of not-for-profit public utility companies. On 30 November, the Prime Minister said that he accepts that an element of profit has to be present in the case of energy-producing companies; however, the profit of mediators between the producer and the consumer has to be minimised.

Retail

Retail volume continues to slide

The total value of retail trade was HUF 717bn (EUR 2.4mn) in September, a 3.1% year-on-year drop by volume, the KSH announced. The year-on-year decline is the highest so far in 2012. Retail trade was 0.4% lower than in August. Retail volume was down 1.5% in the first nine months. The September figure was in line with forecasts, and analysts expect a 2% drop for 2012, *Napi Gazdaság* adds.

Retail volume 2012 (year-on-year %)			
	Q1	**Q2**	**Q3**
Food	1.8	-0.2	-2.5
Manufactured	0.7	2.0	-3.7

Clothing	7.1	0.7	1.5
Furniture	-5.0	-11.7	-10.4
IT products	5.4	0.1	1.6
Online sales	48.8	45.8	30.8
Fuel	-2.6	-3.6	-2.8
Total	**0.6**	**-2.5**	**-3.0**

CBA to take over more stores

Retail chain CBA is in talks to take over more Match and Profi stores in Budapest and surroundings, spokesman Attila Fodor told *Napi Gazdaság*. Hungarian-owned CBA announced that it had agreed to take over 48 Match and Profi outlets owned by Belgium's Louis Delhaize group, which is leaving Hungary, to be converted into high-end CBA units after reconstruction. The additional revenue from the new stores is expected to be HUF 80-100bn (EUR 267-333mn), Fodor said.

Environment

Switch from gas heating hits air quality

A switch in home heating methods from gas to wood and coal is the main cause – in addition to vehicle traffic – of a recent increase in dust particles in the air, the Rural Development Ministry told *Napi Gazdaság*. Taking preliminary data from 2010 and 2011 into account, a clear trend is visible in the structure of home heating, the ministry said. Hungary violated the EU air quality standards directive because of the high con-centration of dust particles in the air, and faces an infringement procedure.

New radioactive waste deposit open

A nuclear waste deposit built at a cost of HUF 70bn (EUR 233mn) was opened at Bátaapáti, Tolna county. The facility is capable of holding 40,000 m3 of waste from low and medium level activity at the Paks nuclear power plant. The deposit is located more than 200 metres below the surface and can hold about 4,600 barrels of radioactive waste.

Agriculture

Price of the arable land up 11%

The price of farmland in Hungary rose 11% in the first half of 2012, FHB Mortgage Bank's fresh farmland index shows. FHB's farmland index rose to 224 in the first half of 2012 from 202.3 in the first half of 2011. FHB said that the rise in the price of farmland in Hungary in the first half — the result of a good harvest in 2011 — was the largest recorded since the country joined the EU in 2004.

Food industry

Bonduelle extends its production base

French vegetable producer Bonduelle has built a new, 5,000-square-metre warehouse in Békéscsaba, southeast Hungary, in a EUR 1.5mn investment project, local newswire MTI reported. An investment project of similar size last took place at the Békéscsaba in 2008, when Bonduelle was the first in the country to build its own sewage cleaning facility for its plant.

Bonduelle processes corn and peas in Békéscsaba and sells the tinned products domestically and abroad. The unit supplies semi-finished products to France, packaged goods to Poland, Germany and Russia. Bonduelle's Békéscsaba unit has a 70-strong steady headcount, but in processing season staff is expanded to 150 people. The plant collects raw materials from 5,500-6,000 hectares (corn and peas), with 90% of the suppliers being farmers in Békés County. According to the annual TOP 200 list of weekly Figyelő, Bonduelle Central Europe had HUF 33.3bn (EUR 116mn) net revenues in 2011.

Tourism

Holiday lifts guest nights in October

Guest nights at commercial accommodation in Hungary were up 9.1% year-on-year in October and 4.5% higher in the first ten months of the year, according to Central Statistics Office data. The number of guests rose 6.6% year-on-year in October and 3.2% in January-October. There was 9.4% growth in domestic guest nights to 770,000, and a 9.0% rise in foreign guests to 984,000 in October. There was a 4.9% rise in the number of domestic tourists and an 8.2% increase in foreign visitors in the same period.

Budapest hotels registered double-digit growth in October, helped by the four-day holiday weekend at the end of the month. More tourists came from Russia, Italy, Germany and UK, but fewer from Austria and the Czech Republic. The average occupancy rate was 52.4% while the average gross room revenue gained 5.2% year-on-year to HUF 15,915 last month. The use of vacation vouchers and Széchenyi leisure cards accounted for roughly 25% of room revenues at Hungarian hotels by the end of September.