Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

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Dear Reader,

The month of May was dominated by series of positive economic news and rather strong and stable HUF/EUR exchange rate. The most important development was that the European Commission has finally recommended the Council to abrogate the Excessive Deficit Procedure (EDP) for Hungary. The government welcome this development which was the aim number one for the Orban cabinet's budgetary policy. Analysts warn however that the Hungarian government cannot allow to relax and let its fiscal reign loose as it approaches the 2014 elections. The possible abrogation from the EDP for Hungary does not alleviate debt sustainability concerns, Moody's added. Moreover, the EC made seven country specific recommendations for the country that government should take into consideration. The recommendations include ensuring a stable, more balanced and predictable corporate tax system, broadening the powers of the Fiscal Council, lowering the extra burden on the financial sector, strengthening active labour market policy measures, making the business environment more attractive for foreign direct investment by making the regulatory framework more stable and gradually abolishing regulated energy prices. The lack of predictability and weak business environment could be the reason why Hungary slipped five places in the latest IMD competitiveness ranking.
The second positive development was that the first quarter GDP figure was well above expectations, primarily due to good figures from construction and agriculture. This also means that technically speaking Hungary is out of recession. The last time Hungary's economy displayed growth was in the fourth quarter of 2011. According to the data released by the Ministry of National Economy, the FDI inflow into Hungary was outstanding last year, reaching EUR 10bn. However, a closer look reveals that most of the capital flows were due to the fact that parent banks had to make capital increases in their Hungarian subsidiaries. The general investment data also shows stagnation or fall of investments, except for the export sectors.
As it had been expected, the central bank continued with easing further the monetary cycle. The base rate is at a new record low of 4.5% after the Monetary Council lowered it for the tenth consecutive month. The move was supported by the historically low inflation figure. The economic sentiments seem to improve somewhat, for instance business confidence measured by GKI was last as high as in May one year ago and consumers have not been this confident about what lies ahead for more than two years. According to an other survey, most SMEs are thinking of making fixed capital investments. The improved sentiments among the small and medium sized companies can be justified with the recently announced funding for growth scheme of the central bank, as well by further easing of the conditions for applying for the EU funds.

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Economic policy

GDP figures show unexpected growth
The economy grew by 0.7% in the first three months compared to the previous quarter, on the back of exports and the rise in agricultural output, according to preliminary data from the KSH. This was rather a surprise as analysts had been expecting almost no growth in GDP. The year-on-year figures were also better than expected as the economy contracted by only 0.9%, which is significantly lower than the 1.2% consensus of analysts polled by *Napi Gazdaság*. Technically speaking, the rise in GDP puts Hungary out of recession. The last time Hungary's economy displayed growth was in the fourth quarter of 2011, when GDP rose by 0.3% relative to the previous quarter. However, the analysis warns that growth potential is weak in Hungary, as investment activity has sunk to historic lows, due to anaemic lending and political uncertainty.

EU relations

EC recommends end to excess budget deficit procedure
The European Commission recommended that EU finance ministers end an excessive deficit procedure (EDP) against Hungary and four other member states. The procedure against Hungary has been in place since the country joined the EU in 2004, as the deficit has never remained below 3% of GDP. The Commission revised its budget deficit forecasts for Hungary from 3% to 2.7% this year and from 3.3% to 2.9% for 2014, in response to new austerity measures announced by the government on May 10, including a spending freeze at ministries and a possible halt to investment projects. The structural deficit – which excludes one-off fiscal measures – was 0.7% of GDP last year, and will rise from 1.1% in 2013 to 1.8% in 2014, according to the EC. One year ago, the EU highlighted "serious" imbalances in Hungary's finances, but, the word "serious" was left out from the latest report. Although the government may make gestures to certain social groups – higher salaries for teachers for example – a wide-scale spending spree ahead of the election is not expected by most analysts.

EC adopts country specific recommendations
The European Commission also adopted recommendations for Hungary and other countries focusing on fostering growth while maintaining fiscal stability, which in broad lines were little changed from the previous report.
The EC is urging Hungary to implement a credible and growth-friendly budget policy with medium-term fiscal targets in mind. In addition, the report proposes expanding the scope of authority of the Budget Council. It says Hungary needs a more stable and predictable corporate tax system and should minimise the distortions caused by sectoral taxes, pointing to the tax on bank sector. On employment issues, the Commission recommends that Hungary reduce tax rates for low-income employees and support youth employment, while reducing the preponderance of public works schemes. The report highlights the deterioration of the business environment, and advises the government to gradually abolish central regulation of energy prices while increasing the independence of the Energy Office. The Ecofin Council is expected to formally endorse the report at a meeting on June 22.

Budgetary policy

Financial transaction tax falls short of the target
Hungary's general government posted a deficit of HUF 35bn (EUR 118mn) in April, the Economy Ministry announced its revised report. This means the budget deficit has beet at 60% of the 2013 target already. It was also confirmed that financial transaction tax (FTT) revenues totalled only HUF 11.2bn, falling greatly behind the target of HUF 301bn (EUR 1.1bn). By the end of the fourth month some HUF 82bn (EUR 275mn) worth of FTT should have been collected, assuming an even distribution throughout the year, i.e. the backlog is HUF 43bn (EUR 145mn) so far. The cabinet expects the target to be undershot by some HUF 80bn (EUR 270mn) in 2013.

Monetary policy

The base rate cut further in May
For the 10th month running Hungary's central bank has reduced its main interest rate by 0.25%. It is now at 4.5%, down from 7%, with further cuts expected. The government is taking advantage of record low inflation to reinvigorate the economy, which remains weak, despite being one of very few European

countries to achieve growth in the first three months of this year. Inflation is set to be just above the central bank's 3% target, having hit 6.6% last September. The deficit is forecasted by the government to be just 2.7% of GDP. The annual inflation rate was 1.7%, and monthly inflation 0.3% in April the Central Statistics Office announced. The centrally imposed price cuts have shaved one percentage point of inflation since January, and with further official cuts in the pipeline the rate could fall to 1.5% in the third quarter before climbing back to 2.2% in the fourth quarter. Inflation will remain below the central bank's 3% target, which increases the likelihood of further rate cuts in the base interest rate, commented analysts at JP Morgan.

Employment

Migration data collected

A fresh study revealed that around 72,000 Hungarians left the country in 2012, compared to 58,000 in 2011, 43,000 in 2010 and around 30,000 in the years before that. What appears to be evident, however, is that the pace of return migration does not track the rise in the pace of migration**,** which gives reason for concern that Hungary will become a country of migrants, like Bulgaria for instance. The rate of migration from Hungary has been picking up at an ever quicker pace since the end of the 2000s. Whereas previously the number of returning migrants to the number of migrants was around 80%, this ratio has dropped to around 50% by now. The composition of nationalities migrating to Hungary has also changed in a peculiar way over the past few years. The ratio of people coming from the neighbouring countries (mostly ethnic Hungarians) decreased, while the ratio of migrants from Germany, for instance, has grown. In scope of the SEEMIG project Hungary's Central Statistics Office is working on an experimental data collection that uses employment survey data as a basis.

Competitiveness

Hungary slips on the IMD Ranking

In the IMD 2013 competitiveness ranking of 60 economies Hungary came in 50th, down five places from a year ago. A similar decline was observed in 2011, but last year the country managed to climb higher in the ranking. Compared to 2010 Hungary is now down 8 places. In Europe, the most competitive nations include Switzerland (2), Sweden (4) and Germany (9), "*whose success relies upon export-oriented manufacturing, diversified economies, strong small and medium enterprises (SMEs) and fiscal discipline*". The Netherlands were ranked 14th, down from 11th place. From the central-eastern European region Poland is the 33th, up one place, the Czech Republic 35th and Slovakia ranked 47th. Romania has got the 55th place, while Bulgaria is the 57th.

IMD World Competitiveness Ranking

1997	2010	2011	2012	2013	
1	3	1	2	1	USA
12	4	5	3	2	Switzerland
3	2	1	1	3	Hong Kong
19	6	4	5	4	Sweden
2	1	3	4	5	Singapore
5	9	13	8	6	Norway
6	7	7	6	7	Canada
-	-	28	16	8	United Arab Emirates
16	16	10	9	9	Germany
-	15	8	10	10	Qatar
18	8	6	7	11	Taiwan
13	13	12	13	12	Denmark
8	11	11	12	13	Luxembourg
4	12	14	11	14	Netherlands
14	10	16	14	15	Malaysia
15	5	9	15	16	Australia
10	0	24	20	17	Ireland
9	22	20	18	18	United Kingdom
25	17	17	19	19	Israel
7	19	15	17	20	Finland

1997	2010	2011	2012	2013	
-	43	45	36	31	Lithuania
43	32	34	34	33	Poland
33	29	30	33	35	Czech Republic
-	34	33	31	36	Estonia
-	-	-	-	41	Latvia
-	49	48	47	47	Slovakia
-	57	57	56	49	Ukraine
37	42	47	45	50	Hungary
-	52	51	51	52	Slovenia
36	46	56	58	54	Greece
-	54	50	53	55	Romania
-	53	55	54	57	Bulgaria
-	56	58	57	58	Croatia
28	55	54	55	59	Argentina

Source: IMD, Portfolio.hu

Ministry reports record FDI in 2012
A record total of EUR 10.5bn of foreign direct investment (FDI) arrived in Hungary in 2012, up from EUR 3.8bn in 2011, the Economy Ministry announced. However closer inspection of the data reveals that parent banks had to make capital increases in their Hungarian subsidiaries amounting to nearly EUR 2bn last year, which in not a real investment. Hungarians invested EUR 8.2bn in other countries last year, also a record high. The cumulative foreign direct investments in Hungary are worth EUR 78.5bn, or 80.3% of GDP, the highest level in the region. That amounts to EUR 7,929 per capita, second in the region only to the Czech Republic's EUR 9,834.

SMEs

SMEs nurture investment plans
Most SMEs, 58%, are thinking of making fixed capital investments, K&H Bank found in a first-quarter survey. The number of would-be investors has risen for three quarters but is still below the 61% measured one year earlier. Concerning investment types, 29% are thinking of IT investment, 25% are contemplating the purchase of machinery. Retail and service companies are least likely to be planning investments. The changes in attitude may be the result of the MNB's recent programme.

Rules for EU funds eased
State venture capital fund Széchenyi Tőkebefektetési has received EU approval for an increase in its maximum single capital injection to EUR 750,000 from EUR 200,000. The fund has now changed the terms of its capital injections for SMEs, including a reduction in co-financing requirement by owners from 30% to 10% for projects with 70% EU funding. In addition, the fund can invest up to 70% in any project that matches its goals. Thirdly, the product portfolio of SMEs eligible for state capital can be expanded. In the latter case, a public invitation for private investors must be issued and the state will inject capital only if no private capital is available to avoid crowding out effect. The minimum number of employees in eligible projects falls from 25 to 5 at the end of the second year of the project. The rules have been eased in order to speed up the absorption of the EU funds before the deadline.

Business environment

Local procurements not transparent says TI
Some 40% of local authorities are concealing data on purchases made with public funds, a Transparency International Hungary study discovered. The local governements transparency index was zero for Esztergom, Pécs and Szolnok, among others. The most transparent local governments are those of Hajdúdorog, Pilisvörösvár, Szombathely and Tata.

Business confidence slightly up
According to the empirical survey conducted by research institute GKI business confidence was last as high as in May one year ago and consumers have not been this confident about what lies ahead for more than two years. The business confidence index rose to -10.5 points in May from -15.6 points in April and the consumer confidence index went up to -34.4 from -38.9 points. Thus the general economic sentiment index improved to -16.7 points from -21.7.
Except for service companies expectations improved significantly in every sector within the business sphere. After a fall in April the industrial confidence index recovered to its February level and the confidence indices in construction and trade have not been this high for more than two years and for over a year, respectively. In the industry, the evaluation of prospects concerning production and orders improved, but that of export orders did not change. In construction, the positive shift in sentiments accelerated in May. The assessment of the production of the preceding three-month period and that of orders greatly improved compared to April.

Tax office helps foil international money-laundering scam
The National Tax and Customs Office foiled a EUR 9mn money-laundering scheme, vice-president for criminal affairs László Sors announced in Budapest. Several international crime-fighting organisations, including the FBI, joined the investigation. An international criminal organisation defrauded small

investors of funds, which were transferred to a Hungarian bank. The funds were ostensibly to be sent to China for the purchase of textiles.

Legislation

New road toll legislation approved
A new road toll law was approved in Parliament, compelling trucks to pay distance-based tolls on 6,513km of motorway and highway from July 1. As one of the numerous changes to the bill filed in the very last moment, the transport of live-stock and agricultural products will be exempt from the tolls. Haulage companies are to provide satellite navigation records to state highway manager ÁAK, showing distances and routes travelled. This will affect some 40,000-50,000 vehicles with haulage companies that already use satellite systems. Those without satellite systems will have to obtain tickets from vending machines at 1,700 sales points. This will affect an estimated 150,000 Hungarian vehicles and 50,000 foreign ones. Official tests of compatibility of satellite systems with the ÁAK system will take place from June 20 when the system will be activated. The toll applies to trucks weighing 3.5 tonnes or more. The exact fees will be announced later in a government decree.

Dutch presence in Hungary

Alutech Kft market leader in aluminium die forging
Alutech Kft. was registered in 1993 as a plant specialised in independent aluminium forging and CNC machining. During the years the company had several owners, and finally in 2005 Alutech Kft. was acquired by Bons & Evers Holding. The company has become an independent economic production unit with full rights, owned by one entity as a result of several years of close co-ordination, organisation and mainly control. Alutech Kft. has a market leading position in aluminium die forging in West Europe, Hungary and several countries of Central-Eastern Europe, mainly among suppliers to the automotive industry. The company has been developing and manufacturing aluminium die forged parts of high added value at the site in Kálló, Nógrád county (North Hungary) with 80 employees. Alutech Kft. is forging and machining more than one thousand different types of product of aluminium in CNC controlled machining centres. The Dutch branche organisation Royal Metaalunie paid a visit in April 2013 to Alutech to exchange experience about the situation and future developments of the metal sector. More information see: www.alutech.hu

Transport/Logistics

National strategy for logistics drafted
Hungary's logistic sector could increase its contribution to the GDP to 10-15% from the current 8-9% through a mid-term strategy, business daily *Világgazdaság* said, quoting László Duma, member of the board of the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM). The seven-year strategy drafted by professional bodies envisages investment of HUF 12bn per year into the sector, primarily from EU funds, the paper said. A government resolution dated March 28 instructed the National Economy Minister to prepare a mid-term strategy for the sector, in cooperation with professional associations, by the end of May.

Companies asked to provide information
Hungary's State Motorway Management Company (ÁAK) asked companies that offer lorry tracking services for the road haulage industry to contribute to the introduction and operation of an electronic toll system by providing information on the location of vehicles using their own GPS systems, daily *Népszabadság* wrote. Industry insiders did not warm to the idea, the paper said. A consortium of Hungarian-owned i-Cell and ARH signed a contract in April to set up an e-toll system in Hungary by July 1, 2013. The central budget targets revenue of HUF 75bn (EUR 254mn) from toll in the second half of this year.

Energy/Sustainable energy

New Drilling in Makó

Denver-based Falcon Oil and Gas started a drilling campaign in the Makó Trough (South-East Hungary), *Proactiveinvestors* reported. Falcon Oil and Gas's local unit, TXM Olaj- és Gázkutató, signed a declaration of intent with Naftna Industrija Srbije (NIS) of Serbia on gas production in the Makó license area in June 2011. Proactiveinvestors said NIS will drill the first well at a depth of around 3,000m. The rig is expected to be moved around the end of the month and spudding will begin in mid-June, it added.

Nabucco countries adopt joint declaration
The Nabucco natural gas pipeline could be extended to supply countries across most of Eastern and South-eastern Europe, the governments of the consortium countries agreed. The governments of Austria, Hungary, Romania, Bulgaria and Turkey adopted a joint declaration that stressed the potential of Nabucco to supply the energy markets of the Western Balkans (Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Macedonia and Albania) and the Visegrád group. The governments, in a statement issued after a Nabucco Committee meeting in Bucharest, said they were committed to developing the necessary gas interconnections "*to ensure that Nabucco can also supply the countries in the southern and central-north dimension of Europe*." The main Nabucco pipeline - or Nabucco West as it is now called after being shortened to start at the Turkey-Bulgaria border - would bring gas from Azerbaijan and other sources in the Middle East and Central Asia through Bulgaria, Romania and Hungary to Austria. Its company members are: Turkey's Botas, Bulgaria Energy Holding, Romania's Transgaz, Hungary's FGSz and Austria's OMV.

Environment/Water

Waterworks go into state ownership
Hungarian state-owned regional waterworks, Észak-magyarországi Regionális Vízmű, bid HUF 250mn (EUR 0.9mn) to take over the municipal sewage company from the city council of Salgótarján, Salgótarján Mayor announced. Previously, the local council of Salgótarján signed an agreement to buy the minority of municipal sewage company, Salgótarjáni Csatornaművek, from the French environment company Veolia. At the same time, the state-owned regional waterworks bid another HUF 250mn for the shares of 30 local councils in the Salgótarján city waterworks, Salgótarján és Környéke Vízművek, too. The regional waterworks will assume operation of its acquisitions in June, and will pay rent to the present owners until the purchase agreements are signed. As a result, water fees for Salgótarján residents will be cut by 24% from June, more than the national rate of the utility price cut of 10%, and sewage fees will decrease by the regular 10%, the mayor said.

LIFE refuses to cancel Hortobágy project
The cancellation of an on-going LIFE nature preservation project by the state-owned National Park Hortobágy cannot be justified, and is thus rejected, Angelo Salsi, Head of LIFE Nature Unit at the European Commission wrote in a letter. He asked the park to complete the program as per the signed contract for the LIFE project, which related to approximately 6,000-8,000 hectares of land that the government now wants to lease to family farmers.

Industry

Decline in output slowing down
Industrial output was down 2.9% year-on-year in March, while workday adjusted figures show only a 0.7% drop, according to data from the Central Statistics Office. February data showed still a 5.3% decline. Production rose 0.4% from February to March, and was 3.1% higher, year-on-year, in the first quarter. Growth expected in the second half could more than offset the drop in the first half, said analyst of Raiffeisen Bank.

Automotive

New production sites supported by EU funds
US automotive industry supplier BorgWarner inaugurated an HUF 8bn (EUR 32mn) expansion at its turbo charger plant in Oroszlány. BorgWarner Turbo Systems Kft won HUF 1.5bn (EUR 5mn) from EU

funding for the investment which created almost 100 jobs, said managing director Attila Bogár. The unit plans to increase capacity by another 50% in the coming three years. The plant in Oroszlány employs 661 people at present, but headcount is expected to increase 20%-30% in the long term. BorgWarner invested EUR 27mn in Hungary so far. Annual revenue of the company's local business now exceeds EUR 360mn.
The Hungarian unit of German automotive industry supplier Brose completed a HUF 675mn (EUR 2.2mn) investment at its base in Kecskemét, home to German peer Daimler's plant in Hungary, Brose Hungary Automotive told *MTI*. Brose Hungary Automotive won HUF 106mn (EUR 0.4mn) in EU funding and state co-financing for the investment. The Brose unit supplies the Daimler plant in Kecskemét with doors.

Construction/Infrastructure

Construction sector bounces back
Construction industry output grew 9.9% year-on-year in March, rebounding from record lows as road and rail projects helped lift the figures, the Central Statistics Office announced. In the first quarter, output rose by 4.8% year-on-year. The construction of buildings increased 8.2%, while civil engineering projects saw growth of 11.9%. The volume of new contracts signed in March was up 25.3%, and total orders were 19.6% higher than one year earlier. Construction prices increased by less than inflation, at annual rate of 1.4%. This was the first time in seven years that growth was reported in all the subsectors, commented László Koji, head of construction association Évosz. Economic research institute GKI expects to see an even larger jump in output in the first half of the year due to the low base figures, followed by a less spectacular growth figure in the second half, because output had already begun to rise in the second part of last year. GKI predicts that the output will effectively remain static over the year as a whole.

Services

Unified emergency call system suffers delay
A unified emergency call system, ESR-112, will be operative by the end of the year, the National Development Ministry announced. The government initially planned to put the system into operation in March, but suffered delays due to procurement tenders. By introducing a new universal emergency number 112, replacing the current 104, 105 and 107 numbers for ambulances, fire-fighters and police, authorities hope to reduce response time to 15 minutes. All calls will be received at control centers in Miskolc and Szombathely, where several hundred operators will be employed. Hungary received HUF 6bn (EUR 20mn) from the EU for the HUF 7.4bn (EUR 25mn) undertaking. A pilot project is operating in Vas, Heves, Komárom and Borsod counties.

FHB, Magyar Posta to purchase DBH
Magyar Posta added its signature to a letter of intent signed by mortgage bank FHB to purchase a 76% stake in bill collecting company Díjbeszedő Holding (DBH). FHB and Magyar Posta plan a strategic partnership between the three companies, FHB announced via the Budapest Stock Exchange website. Due diligence is under way, with the final contracts due to be signed in the summer. FHB plans to merge the online bill payment system developed by DBH with the MasterCard Mobile platform, analysts said. DBH also has a factoring subsidiary, which contributes the bulk of its revenues.

Financial services

Founding for growth may continue beyond August
As a result of intensive dialogue and consultations between the NBH and commercial banks and between the latter and small and medium-sized enterprises, the Founding for Growth Scheme proved highly successful, central bank governor Gyorgy Matolcsy told a press conference. Demand for funds in the first pillar of the programme was threefold of the available sum (HUF 750bn) and the banks put in a request for double the available funding in the second pillar (HUF 500bn). As a response the NBH raised the total available funding by 50% to HUF 425bn (70%) in the first and to HUF 325bn (30%) in the second pillar.

The NBH originally expected about two-thirds of the financial institutions to sign up for the programme, but the participation rate turned out to be 90%, Matolcsy said. This means 36 of 40 banks are in, he explained, adding that the higher funding made available will fully satisfy the funding needs of 90% of the participants, i.e. 32 banks will receive 100% of the funding they requested. Matolcsy also said chances that the FGS will be continued beyond August have increased.
Matolcsy underlined that 70% of the employed people in Hungary work at the 650,000 SMEs and they generate 54% of gross domestic product, which means the sector plays a decisive role in growth. The central bank chief also said 420,000 of these SMEs have loans presently, which means the banks - and via them the NBH too - have several hundreds of thousand potential partners. Matolcsy also emphasised that the central bank's monetary easing cycle was successful as the reduction of the base rate filtered down to the interest rates on loans.

OTP grows even bigger
Hungary's biggest lender OTP isn't deterred by a drop in its first quarter business results, so much so that it is close to acquiring two of its peers on the Hungarian market from foreign owners seeking to leave. The immediate speculation on the market is that the two targets for the buyout are CIB and MKB. The former's owner has publicly expressed disappointment with business conditions in Hungary, while the latter is openly for sale. OTP CEO, Sandor Csányi declined to reveal the answer, but only said OTP had made a non-binding, written offer for one of the banks and was in the "last phase of negotiations" on the purchase of the other. OTP's latest business report for the first quarter showed after-tax profits of HUF 11.23bn (EUR 38mn), down 12% year-on-year, but still beating analyst expectations. OTP noted that the effects of the financial sector tax are always added to the books in the first quarter of the year, which weighs heavily on the overall result. Thanks to continued profitability, OTP has EUR 6.1bn in free liquidity, which will be used to finance the latest acquisitions. Csányi noted that the government's strategic goal of increasing domestic ownership to 50% within the country's banking sector could easily become a reality in the coming years. In the first quarter of 2013, OTP's foreign subsidiaries generated 45% of total after-tax profit, adjusted for one-off effects.

Telecommunication

NISZ to buy HUF 5bn (EUR 17mn) of GSM-R cables
State info-communication service provider NISZ has announced a tender for the purchase of fibre-optic cable to run alongside 1,091km of railway. The cable is needed for the GSM-R mobile network of state railway company MÁV. The net value of the order is estimated at HUF 5.1bn (EUR 17mn). Bids must be filed by June 18.

Antenna Hungária up for grabs
The French group TDF is selling its broadcasting subsidiaries, including Antenna Hungária in Hungary *Napi Gazdaság* reports. TDF will also sell its subsidiaries in Spain, Germany, Sweden, Finland, Estonia, Poland and Monaco. Antenna Hungária has made preparations for the sale already, *Napi Gazdaság* adds. Industry observers comment that the Hungarian state might be interested in purchasing Antenna Hungária to gain a foothold in the broadcasting market. The state sold 75% of Antenna Hungária to Swisscom in 2005, which later purchased the rest of the company but sold it on to TDF shortly after.

Transport

Canadian fund buys Budapest Airport
Canada's Public Sector Pension Investment Board has bought a 49% stake in airport manager Budapest Airport as part of a larger transaction, it was announced. German construction company Hochtief sold its subsidiary Hochtief Airport to the fund for EUR 1.1bn. The sale will come into force retroactively from January 1, 2013. With its purchase of Hochtief Airport, the Canadian investor acquires a 49.6% in Budapest Airport, making it the majority owner. Canada's Caisse de depot et placement du Québec has 18.2%, Singapore state firm Malton Investment also 18.2%, Goldman Sachs affiliate Aero Investment has 10% and German investor KfW Ipex-Bank 4%.

Low cost carriers represent 50% of flights at Budapest Airport

Last year's bankruptcy of state airline Malév led to a reduction of "only" 5% in the number of passengers that use Budapest's Liszt Ferenc Airport, said Budapest Airport's CEO Jost Lammers. Budapest Airport is conservative in its predictions for 2013, and does not expect to see any increase in the number of passengers this year. Some 51% of passengers using Liszt Ferenc Airport flew with low cost carriers last year, with traditional airlines accounting for 40%, Malév for 3% and chartered flights for 5% of all passengers passing through the airport in 2012. The Malév bankruptcy led to a drop in airline ticket prices and fiercer competition, Lammers noted.

Retail

Retail sector slightly recovers

The volume of retail sales in Hungary increased by 3.4% year on year in April, according to data adjusted for calendar effects, the Central Statistics Office (KSH) has reported on Wednesday. The last time the index came in this high was seven years ago. The volume of sales increased by 3.3% in food, drinks and tobacco stores and by 6.3% in automotive fuel retailing. There was no change in the sales volume of non-food retail trade. The good figure comes after a 2.9% decline in March, which is quite a nice jump. At the same time the high index was also boosted by the fact that retail sales started to really sag from April 2012 as a consequence of a major adjustment and the real income, which means the base was much lower.

Agriculture

Crop watering prices to be regulated

The cabinet may regulate prices charged for watering arable land, as current service providers are not interested in lowering their operating costs, according to a draft posted on the Rural Development Ministry website. There is a need to revise the present group of suppliers and their activities, the draft argues. According to the document, suppliers should apply a stable price for 12 months to be announced by February 20 of each year. After closing a season, suppliers should present their actual costs. The difference between revenues and costs should then be taken into account in setting the price for the following year.

GVH unable to fight agriculture cartels

The Competition Authority (GVH) is unable to effectively fight cartels in agriculture, because the law makes this impossible, its leader Miklós Juhász told Parliament's agricultural committee. An amendment passed last autumn requires the GVH to obtain the opinion of the Rural Development Ministry in all cartel cases in agriculture and to base its ruling on the opinion of the ministry. For instance, inquiries into a suspected watermelon cartel were dropped on orders from the ministry, Juhász pointed out. The GVH should obey the law instead of complaining, retorted ministry state secretary Gyula Budai.

Ministry finalises land bill

The Rural Development Ministry announced the final version of its land bill, to be approved by a committee in Parliament this week but without the usual explanations, *Napi Gazdaság* reports. The bill states that individual farmers may own no more than 300 hectares of arable land, eliminating the different caps for different types of land. The total area cultivated by one person, combining owned and leased land, will be a maximum of 1,200 hectares, or 1,800 hectares for livestock farmers.
Land sales and lease contracts will have to be prepared by a lawyer and signed in the office of a public notary. Local farmers associations may annul purchase or lease permits issued by the authorities, and authorities may also cancel the contract if there is reason to believe that the buyer's intention is to accumulate land. In practice this could mean that land purchase and lease prices will be set by the government, *Napi Gazdaság* concludes. The bill will also allow churches to lease land.

Farmland market more active in 2012

The farmland market continued to grow last year, with rises of 8% in the number of transactions and 5% in the average plot of land sold, according to OTP Jelzálogbank. Some 136,000 hectares of land changed ownership through sale and a further 80,000-100,000 hectares though inheritance. Farmland

prices rose 10% on average last year, whereus the regional differences widened. One hectare of land sold for an average of HUF 836,000 (EUR 2.787) in Győr-Moson-Sopron county and HUF 334,000 (EUR 1.113) in Nógrád county. Regulatory changes could reshape the market. Local farmers will have exclusive rights to lease land, according to the land bill, which also states that farmland can be sold only to individuals active in agriculture.

Food industry

Biscuit production base to increase

Snack maker Mondelez International, formerly known as Kraft Foods, is investing USD 19mn at its base in Székesfehérvár to install capacity for Milka brand chocolate biscuit sandwiches, Mondelez Hungaria managing director said at a press conference. The investment will boost capacity at the biscuit plant in Szekesfehervar by 30%. Construction has already begun and the production lines are expected to be installed in December. The investment will create 200 jobs. The new products will not be available in Hungary for the time being. Mondelez International has invested almost HUF 3bn at the base, owned by unit Győri Keksz, in recent years. Mondelez Hungária had revenue of HUF 34.6bn (EUR 115mn) in 2011.

Hungarian biscuits maker Detki Keksz is spending more than HUF 530mn to expand its base in Halmajugra, marketing manager told news agency *MTI*. Detki Keksz will add 1,800 sqm of warehouse space and 800 sqm of production space at the base. The company won a HUF 217mn (EUR 0.8mn) EU funding and state grant for the investment. Detki Keksz is Hungary's second-biggest biscuits maker, generating annual turnover of HUF 3.8bn (EUR 1.2bn) with 140 employees.

Events parent banks had to make capital increases in their Hungarian subsidiaries

Seminar about outsourcing to Hungary

Date: 13 June 2013

Organisers: Hungarian Business Network together with KLM and the Hungarian Embassy in the Netherlands

More information: http://www.huchamber.nl/nl/agenda/why-outsource-to-hungary