Koninkrijk der Nederlanden

Holland

Hungary Economic Newsletter October-November 2015

Embassy of the Kingdom of the Netherlands

Embassy news

Dutch EU Presidency approaching
From January 1st to July 1st, 2016, the Netherlands will hold the Presidency of the Council of the European Union. On this occasion, several economic events are planned, among others: a multilateral conference on water and sustainability, a road show travelling the country on Corporate Social Responsibility and the resilience of NGO's, as well as a conference about circular economy. Additional information on the Embassy's EU Presidency events will be presented on the Embassy website as off early 2016.

'Use the Residence' programme in full swing
On December 9th, the residence is booked by Heineken for a corporate event, under the Embassy's 'Use the Residence' programme. You can read more on: http://hongarije.nlambassade.org/you-and-country/use-the-residence-programme

Former Prime-Minister of the Netherlands, Jan Peter Balkenende, visited Hungary
On December 3rd , Jan Peter Balkenende was guest of honour during the Sinterklaas celebration for the Dutch business community at Randstad Hungary. He brilliantly connected Sinterklaas with sustainability and awarded Heineken Hungary a certificate on corporate social responsibility .
On December 4th, Mr Balkenende addressed a well attended and much appreciated network meeting of Hungary-based international business and diplomats about sustainability related questions at the Netherlands Residence.

Dutch Sports Infrastructure (DSI) mission to Budapest
On October 8th and November 12th , 10 Dutch companies participated in a seminar and matchmaking event co-organised by the Royal Netherlands Embassy and the Dutch branche organisation FME-DSI. Sándor Fegyverneky, senior advisor to the government office for special projects and the Olympic Games (KKBK), and Elzo Molenberg, Deputy Head of Mission, welcomed the meeting, Judith van Akkeren, senior project manager of FME, presented the DSI cluster. Next, KKBK gave insight into the Hungarian sports infrastructure development plans and the representatives of the Dutch companies presented their products and services to approximately 40 Hungarian decisioon-makers and experts of the Hungarian construction sector. The first contracts have already been initiated.

Embassy visit to Komárom-Esztergom county on November 11th
Deputy Head of Mission, Elzo Molenberg, and Policy Officer Trade, Éva Szabó, paid a visit to regional government and Dutch companies in Komárom-Esztergom County. As a start, they met the President of the County Assembly, György Popovics, who informed about the county's social and economic position, the development priorities and EU funded projects. Mr. Molenberg highlighted that the Embassy visits each county to establish direct contacts with the Dutch companies present on

the Hungarian market. The Embassy attaches particular attention to establishing good relations between local authorities and Dutch companies, to the challenges these companies may face, and to the practice of corporate social responsibility.
The Embassy subsequently paid a company visit to André van Olst Ltd, specialized in transport of one-day old chickens and breading eggs accross Europe. The owners André van Olst and Edit van Olst-Virág establishment the company in Bábolna as a logical combination of the Dutch poultry industry and Edit's Hungarian origin. The mother company is located in Wezep, the combined workforce is 70. The 38 trailers are equipped with temperature, humidity and CO2 monitoring and regulating system and the drivers are certified. Additional information: www.en.avanolst.com
Willem Pijnenburg, owner of the company Hungary Pork Ltd with 27,000 pigs in and around Bábolna at several locations. The company was established in 2004 and due to the full automatization, it has realized cost-effective production. The same is true for Albers Agrár Ltd, established in 2008, owned by Willem Albers, having 600 milk cows, located in Szákszend. The Dutch owners welcomed the suggestion of Elzo to organise a Dutch business-to-business BBQ in the county in the spring of 2016.

CEO's lunch with Róbert Ésik HIPA President
On October 29th, the representatives of 11 Dutch Hungary based companies have participated in a working lunch at the Netherlands Residence with special guest, Hungarian Investment Promotion Agency President Róbert Ésik. Ambassador Gajus Scheltema highlighted the commitment of the Dutch business community in Hungary to stay and reinvest in Hungary as well as the continued need for transparency and predictability, necessary to improve the investment climate. After to the participants introduced their companies and Mr Ésik highlighted the HIPA-services for foreign investors, the guests exchanged views on the Hungarian labour market, education, financing of projects and possible joint events related to the Dutch EU Presidency.

2nd Potato days in Kiskunhalas
On October 9th , the second edition of the Potato days in Kiskunhalas (South Hungary) took place. The event was organized by Bács Gazda-Coop Ltd, a Hungarian trader of (seed) potatoes. The conference was openend by Lajos Szabó Managing Director of Bács Gazda-Coop Ltd, Róbert Fülöp Mayor of Kiskunhalas, Zsolt Feldman Deputy State Secretary of the Ministry of Agriculture, József Lukács Vice President of Nébih and Martijn Homan, Agricultural Counsellor of the Netherlands. During the session on seed potatoes and its varieties, two Dutch companies (De Nijs en IPM) gave an introduction. At the conference over 50 farmers and agricultural representatives participated.
Since the beginning of the 19th century the cultivated area decreased from over 250.000 hectares to approximately 20.000 ha nowadays. Potato growing in Hungary is a small sector. The average yield per hectare increased in the same period from 5 t/ha to approximately 25 t/ha. Area of seed potato is very limited in Hungary, only 184 ha. and mainly taking place in de the Southwest of Hungary on small area's. Mr Homan gave an introduction into the Dutch (seed) potato sector, which is well developed and active all over the world. The key elements behind its success are the professionalism of farmers, the use of high quality and certified seed potatoes, the well developped infrastructure (knowledge, storage, trade etc) and cooperation between government, research and industry (golden triangle). These elements were also highligted by the Dutch companies De Nijs and IPM.

EU relations

Foreigners may also buy farmland
The government resolution on the sale of state farmland published in *Magyar Közlöny* on November 10th , does not ban foreigners from buying land, contrary to government rhetoric on the issue to date. It confirms that all potential buyers in the upcoming auctions of state land – whether foreign or Hungarian – must be registered as farmers in Hungary. Fidesz MP Balázs Győrffy, President of the Chamber of Agriculture stressed that no more than 222 foreigners are in the position to take part in the bidding, due to start on November 16th, against 105,000 Hungarian farmers. The land can remain Hungarian-owned only if the cabinet desists from privatisation and leaves the land for the community to own, he added. The EU has objected that Hungary has unjustifiably limited the sphere

of possible land purchasers, and that the planned land committees would arbitrarily prevent the conclusion of lease or purchase contracts.

Paks2 Nuclear Plant under EC's scrutiny

The European Commission decided to launch an infringement procedure against Hungary concerning the implementation of the Paks II nuclear power plant project. Following exchanges of information with the Hungarian authorities and a thorough assessment of the terms of the award, the Commission still has concerns regarding the compatibility of the project with EU public procurement rules. The Hungarian government has directly awarded the construction of two new reactors and the refurbishment of two additional reactors of the Paks II nuclear power plant without a transparent procedure. The Commission considers that the direct award of the Paks II nuclear power plant project does not comply with EU legislation on public procurement. In a separate procedure the EC also examined the risks of an illegal state aid to the investment project.
The government will have two months to address the EC's concerns. Then the EC will decide whether to enter the second phase by issuing a reasoned opinion that could be followed by a referral to the European Court of Justice. According to the EC, Hungary has opened an EU market to a third country, while excluding other EU Member-States, thus violating the EU treaty. Recall that Rosatom was directly contracted by the Hungarian government to build two new blocks at Paks and modernize other two for EUR 12,5bn without a proper tender procedure.

Study monitors corruption risks of the EU funds

Transparency International Hungary published a study on the corruption risks relating the EU funds. The main findings are that the allocation of the EU funds is not efficient and the legislative environment and the institutional system for the period 2014-2020 has centralised corruption risks. Moreover, it is not in the interest of the authorities to tightly control the spending, so overpricing is practically hard-wired in the system. While Hungary has spent 2.7 times the EU average on grants for entreprises in order to boost their economic competitiveness since its accession to the EU, this huge amount has not resulted in substantial imrpovement of competitiveness indeces in international comparision. The study is available at:
http://transparency.hu/uploads/docs/unios_forrasok_korrupcios_kockazata.pdf

Hungary sues EC for suspended funds

Hungary has turned to the EU Court of Justice to challenge the European Commission's July 15th decision to suspend the payment of certain subsidies, the Luxembourg-based court announced. This is an unexpected turn, as the original schedule called for the Hungarian government to attend a public hearing in Brussels in 2016, and turn to the court only afterwards, *Portfolio* comments. Payment of some HUF 95-155bn (EUR 303-490mn) has been suspended in the so-called asphalt case. A tender questioned by the EC required that construction companies bidding for a motorway project have asphalt-mixing units within a certain distance of the work site, a stipulation seen by the EC as discriminating against foreign companies. As to the use of the phasing out funding, some 962 projects co-financed by the EU, the Hungarian government and local municipalities are at risk of losing EU money due to delays in development, Hungarian business news portal *Világgazdaság* reported. Given that the deadline to submit invoices for the 2007-2013 EU budget period is in December 2015, the delay could cause a partial loss of the HUF 800bn (EUR 2.5bn) in EU funding already under contract, the report added.

SAPS payments start

Advance payments of EU agricultural subsidies under the single area payment system (SAPS) began, Minister of Rural Development Sándor Fazekas announced at a state show-case farm in Törtel, Pest county. Hungary's is among the few EU governments that pay out up to 70% in advance before the EU money arrives, Fazekas under-lined. Hungary will receive HUF 227.3bn (EUR 725mn) of SAPS funds this year, for which more than 170,000 applications have been filed.

Business environment | Legislation

Tax delay for growing businesses

The budget will support rapidly growing businesses with a so-called tax loan for growth, *Economy Ministry* state secretary Zoltán Pankucsi told *Napi Gazdaság*. These companies will have the option to defer the payment of taxes on sudden increases in profits, as they could pay the additional taxes gradually, in instalments, he added.
Pankucsi argued that this will help companies to grow faster, create jobs and develop new products. Companies whose pre-tax profit rise by at least five times would be entitled to the delayed tax payment option, starting with profits made in 2015. The company must have been in existence for at least three years, and the tax must be paid over two years in quarterly instalments. Pankucsi estimated that 20,000 businesses could be eligible.
Népszabadság observes on its website that Felcsút mayor Lőrincz Mészáros owns several companies that fall into this category, along with Elios, the company owned by the Prime Minister's son-in-law, István Tiborcz.

Tax administration law approved
On November 17th , Parliament approved a new bill on tax administration, which also changes the work of the tax authority NAV. Major change according to State Secretary Tállai: NAV will fill in the tax declarations next year for 1.5 million taxpayers who have one employer and no other income. According to the bill, businesses will be classified as reliable, average and risky taxpayers from April 2016, with different advantages and disadvantages for each category. Those in the first group will enjoy preferences, such as faster tax audits, faster reimbursement of their VAT payments and lower penalties for infringements. Companies in business for at least three years with a tax backlog below HUF 500,000 (EUR 1.600) could be classified as reliable. Companies in the third, risky, category will have the chance to improve their standing, if they meet certain criteria, Tállai said. The bill stipulates tax deductions for electric cars, while their owners will no longer have to pay a registration tax, change of ownership tax, car tax or company car tax.
Haulers will be permitted to deduct 7.5% of their motorway fees paid domestically and abroad from their local turnover tax, and will no longer have to pay the change of ownership tax will on their vehicles. The accounts of the tax and customs authorities will be unified.
On the same day, MPs raised the tax on homemade pálinka to HUF 700 (EUR 2.2) per litre. The government abolished tax on the first 50 litres of home distilled pálinka in 2010, then introduced a HUF 1,000 (EUR 3.2) flat tax last year in response to EU objections. However, that did not go far enough.

Investors warn against dependence on manufacturing sector
Hungary must decide whether it wants to base its economy on cheap manufacturing labour or on innovation and services, according to a report released by a group of multinational investors. The report by the Hungarian European Business Council (HEBC) says it is not too late for Hungary to join the digital economy, but for that education must be developed and innovation will be needed. Hungary should at last decide "*whether it wants to become a cheap production capacity country or takes a share in changes of the fourth industrial revolution*," the HEBC said. If it opts for the latter, it must pursue a policy accordingly, as for instance, it is not enough to offer a good location and infrastructure but a highly qualified workforce is also needed. There is a growing shortage of such talent, the report warns.
The investors say the government's strategic plans are risky if they are built on a single industry, while other elements depend on ad hoc type decisions and are influenced by political interests. The report stresses the importance of a predictable economic policy and a stable legal environment. As in previous years, the 2015 report expressed dismay at the level of corruption and emigration. The HEBC declares it astonishing that 33% of the population lives in poverty and that 43% of those in poverty are children. The HEBC consists of the top level officials of multinational companies active in Hungary, including AkzoNobel, Philips and Shell.

Hungary rises on business climate list
Hungary moved up from 54th to 42nd on the World Bank's latest "*Doing Business*" list, which rates the business climate in 189 countries. However, the improvement is largely due to a change in methodology. Hungary's 42nd place ranking is worse than the 40th it would have earned had the

new method been applied last year. Hungary still lags behind its regional rivals, with Poland topping the list in 25th, Slovakia and Slovenia 29th and the Czech Republic and Romania in 36th and 37th. Hungary scored well in terms of access to credit and trading across borders, but had a poor ranking in the categories for getting electricity, paying taxes and obtaining construction permits.

New body to manage large city procurement contracts
Budapest will set up a company to handle all public procurements in excess of HUF 100mn (EUR 319,000) for the city and the mayor's office, as well as all such contracts above HUF 300mn (EUR 957,000) for city-owned companies, as proposed by Mayor István Tarlós. The city council also authorised a EUR 300mn (EUR 957.000) loan from the European Investment Bank for transport and urban development projects.

GMO ban request upheld
Hungary's request to the European Commission that eight varieties of genetically modified (GMO) corn be banned will be granted, as it was not challenged by the October 22nd dead-line. Agricultural companies Pioneer, Sygnett and Dow Agrosciences did not respond to the Hungarian request submitted on September 21, while Monsanto expressed discontent in a letter, but filed no objection. The Ministry of Rural Development described the development as a victory for Hungary over the strong lobby of multinational companies. The Basic Law states that Hungary must be free of all GMO products.

R & D & I | Creative Industries

Deutsch to announce state WiFi
The government is planning to set up 1,500 WiFi access points in the country, providing free access to the internet at an estimated cost of HUF 1bn (EUR 3.2mn), *Népszabadság* has learned. Tamás Deutsch, the prime ministerial commissioner for digital development, is expected to announce the plans at a conference and to provide details. The government will install the service at town centres or near the so-called e-Hungary community internet and digital infrastructure points. In a recent interview, Deutsch unveiled plans for a potential cut in the VAT rate on internet services from 27% to 18%. The government will also make available a basic internet package at preferential rates to underprivileged Hungarians.

New Olympic bid committee planned
An Olympic Competition Committee will be formed in early December, headed by Speaker László Kövér, *Népszabadság* reports. This committee will primarily put forward proposals and express an opinion alongside the Budapest 2024 Olympic bid committee. The new body will consist of parliamentary party delegates, sports experts and former PriceWaterhouseCoopers CEO Gusztáv Bi-enerth, as well as Football Association international director and former head of the stock exchange Attila Szalay-Berzeviczy. The head of the project is government commissioner Balázs Fürjes. Its spokesman is Hungarian Olympic Committee communications director Erik Siklós.

West Hungária Bau gets stadium construction contract
The consortium of construction companies ZÁÉV and West Hungária Bau has won the tender to rebuild the Hidegkuti Stadium, home to the MTK football club, in Budapest's Eighth District. They will build the new 5,322-seat stadium on Hungária körút by August 3, 2016 for HUF 6.3bn (EUR 20mn). The opening match will see MTK host Sporting Lisbon on September 21, 2016. The project will be successful if the seat occupation level reaches 80-90%, four times higher than at present, MTK chairman Tamás Deutsch added.

Transport | Logistics

State to run industrial parks
The government has decided to set up a state company, Nipüf, to develop and operate industrial parks, it was announced in official gazette Magyar Közlöny on November 24th. The Development

Minister will set up the company via the state asset manager MNV, with HUF 10bn (EUR 32mn) earmarked for this purpose. The minister is to draw up a list of state properties suitable for hosting industrial parks, which will then be donated to Nipüf as in-kind contributions.

Huge rail and road contracts ahead

Nearly HUF 220bn (EUR 0.7bn) in public procurement tenders for railway and road construction will be announced soon, the Ministry of the National Development announced. One of these will be the upgrade of the 20.5km of railway track between Budapest-Kelenföld and Százhalombatta. Another is the electrification of the rail track between Budapest and Esztergom, as state railway company MÁV will not be doing this work, spokesman Dániel Loppert of state infrastructure developer NIF told *Magyar Idők*. The M35 motorway will be continued with a 25.6km stretch between Debrecen and Berettyóújfalu. The motorway will have a connection to the Debrecen airport, while the semi-motorways M30 and M85 will be extended.

HUF 10bn (EUR 32mn) in EU funds for logistics

The government invited bids in November for HUF 10bn (EUR 32mn) of EU funds for logistics developments, state secretary for EU developments, Laura Tatai announced at a conference. The money can be used for the development and expansion of logistics centres and industrial parks. By early October, some 49,000 clients were registered in the electronic road haulage system Ekáer, which handled 8.5 million deliveries.

In a separate event, the cabinet meeting discussed a 16-point proposal from hauler association NiT Hungary, aimed at increasing the sector's competitiveness, *Magyar Idők* reports. This is the first time that a Hungarian government has declared the logistics sector to be economically important, director Gábor Dittel observed. The NiT has lobbied to allow the deduction of foreign motorway fees from the local business tax and has argued for the abolition of the fee for buying new trucks.

HUF 3.5bn (EUR 11mn) investment at Csepel port

Transport infrastructure developments worth HUF 3.5bn (EUR 11mn) have been completed at the state-owned Csepel Danube Free Port, with the help of HUF 2bn (EUR 6.4mn) in EU funding. Railway tracks and warehouse capacities were upgraded and modernised, making 40 hectares of space accessible, said CEO Szávó Sztilkovics of Mahart Szabadkikötő. As a result, he added, traffic congestion will be eased for residents of Csepel, Budapest's 21st District. At the ceremony, a 4,000m2 centre for Turkish company Ekol Logistics was inaugurated, having been built at a cost of HUF 1bn (EUR 3.2mn).

Energy | Sustainable Energy

No free household energy subsidies

The government has decided to stop awarding EU grants for energy efficient investments by households, and will instead limit such support to loans, it was announced in official gazette *Magyar Közlöny* on November 24th. A total of HUF 100bn (EUR 318mn) will be available for this purpose next year. Companies that win EU subsidies for such projects will receive half of the sum in advance from the government without any security, Magyar Közlöny adds.

Gov't to use carbon quota revenues for e-vehicle infrastructure

The government will use proceeds from the sale of carbon-dioxide emission quotas to develop infrastructure to assist the spread of electric vehicles, Economy Minister Mihály Varga said. The government's goal is to make Hungary the regional leader in electromobility, he added, as he opened a new charging station in Dunaújváros.

The government's Jedlik Ányos plan sets a target of more than 50,000 electric vehicles on the road by 2020 served by 150 charging stations providing nationwide coverage. HUF 7bn (EUR 22mn) has been allocated for this infrastructure investments in the 2016 budget.

The Economy Ministry is to present a bill to Parliament soon, which would exempt electric car owners from the registration tax and other charges associated with owning cars. Drivers of electric cars could use bus lanes as well as motorways free of charge.

The sale of carbon-dioxide emission quotas had generated HUF 17.6bn (EUR 56mn) for the budget this year as of September 30th , State Secretary András Tállai said. The revenues will be used to meet goals laid out in the Jedlik Ányos plan and for investment and research projects in connection with climate change and development of renewable energy, he said.

First "smart lamppost" in Budapest
The first "smart lamppost" in Budapest with LED lighting and serving as a charger for electric cars and as a WiFi hotspot, was officially installed in Buda. The intelligent lamppost on Széna tér in front of the Mammut shopping mall also feature a surveillance camera and an emergency phone with a direct link to the Second District police, said Marie-Therese Thiell, head of energy company Elmű-Émász. T-Systems Magyarország BDK and Hofeka also took part in the development, along with Elmű-Émász. It is important to have as many such lampposts as possible for the spread of the smart city concept, said T-Systems Magyarország CEO Rékasi Tibor.

Mátrai Erőmű opens huge solar plant
Power plant Mátrai Erőmű opened Hungary's biggest solar power plant with 16MW capacity, following a 6.5bn (EUR 21mn) investment. The plant uses 72,480 solar panels, each with 255-watt capacity, on a 30-hectare field. Power generated by the cells – enough to supply about 4,000 households – will be fed to the national electricity grid. Construction of the plant was carried out by Hungarian-Austrian-Romanian consortium Wire-Vill-IBC Solar-Energobit. Mátrai Erőmű financed half of the investment costs from tax breaks and the other half from its own resources. Germany's RWE-EnBW group owns 74% of Mátrai Erőmű shares and state energy company MVM has 26%. The power company generates 6 terawatt hours of electricity a year, 15% of Hungary's total energy needs.

Environment | Water Management

Sewerage network to be modernised
Budapest plans to spend HUF 100mn (EUR 333,000) on modernising the sewerage network of Margaret Island ahead of the 2017 World Swimming Championships to be staged on the island. The full costs of the project could be about HUF 2bn (EUR 6.7mn), according to preliminary plans. The cabinet has said that the necessary facilities must be ready by the spring of 2017.
The draft 2016 budget submitted to Parliament includes HUF 27.3bn (EUR 91mn) for spending related to the 2017 swimming tournament, Népszava notes. It includes a HUF 35.9bn (EUR 120mn) item for the National Olympic Centre investment project next year.

Mobile dam project continues
The public procurement arbitration court's annulment of the result of a tender for a mobile dam at Budapest's Római-part does not mean that a new tender has to be called, Budapest deputy major Balázs Szeneczey told *Magyar Hírlap*. The city need only repeat the evaluation of the bids, after amending the winning bid rejected by the court, he said. The winning consortium of Mélyépterv Komplex and Viziterv Consult will be asked to modify internal contradictions in its bid, Szeneczey added.

Macroeconomy

GDP growth slowing down
Hungary's gross domestic product rose by 0.5% quarter on quarter in the July-September period of 2015, the Central Statistical Office (KSH) reported. According to figures adjusted for calendar effects, growth slowed to 2.3% year on year basis. The market was expecting growth to subside, primarily because the list of the key drags no longer consists only of agriculture but - based on the monthly volume data - also of a contracting construction sector and stagnating industry. The degree of the slowdown was primarily linked to how strongly rising domestic demand could offset these rather strong impacts.
Although the GDP growth increase is slightly below expectations, available data are telling us that it has not broken the country's growth story, i.e. the deceleration of output growth continued in the third quarter. Portfolio commented that the real deciding period will be next year. As EU funds to

Hungary will be drying up, investments are likely to decline and we may see GDP growth of less than 2% during 2016.

Economic Policy

Bank tax to be scaled down from 2016
A new draft bill sets out a schedule for gradually reducing the special tax on banks over the next three years. It stipulates that the total bank tax to be paid next year cannot exceed 45% of the amount paid in 2015, and that the tax will fall further in the following years.
For 2016, the bank tax will remain at 0.15% of total assets up to HUF 50bn (EUR 159mn). However, the tax payable above this threshold will be reduced from the present 0.53% to 0.31%, as stated in the 2016 budget passed in the summer. In 2017 and 2018 the bank tax on total assets above HUF 50bn (EUR 159mn) will be cut to 0.21%. The new bill specifies that the total bank tax payable in 2017 and 2018 cannot exceed the 2016 total. For banks that expand lending, the 2017 and 2018 bank tax will be limited to no more than 30% of the 2015 level.
In addition, at the request of the European Commission, no exemptions will be made for Ukrainian and Russian exposure, as was suggested earlier, as that would constitute preferential treatment for OTP.

Varga reveals four-point plan
At a recent conference organised by the Hungarian-German Chamber of Commerce Minister of National Economy Mihály Varga listed the four ways in which he said the government aims to boost economic growth. He said the first measure is to make EU subsidies for the 2014-20 period available as early as possible. All invitations to bid for the funding will be announced by the first half of 2017. Stating that Hungary's GDP grew by more than 3% while there was a credit crunch, Varga said the second step is to enhance lending incentives in the coming months. With this in mind, the bank tax will be halved from January 1, 2016 and further reduced in 2017. Varga also hopes that the MNB will slow down the phasing out of its Funding for Growth program. Obstacles to lending should be removed and a solution should be found to encourage banks to expand crediting securely in higher risk areas, Varga argued. As the third pillar of the programme, is to make the labour market more flexible, public works schemes will be expanded, he said. In addition, training of skilled labour will be reorganised so as to meet the needs of employers and secure jobs for trainees. German factories are participating in this so-called dual training by setting positive examples, Varga underlined. The fourth point is the launch of fixed capital investment incentives.

State to purchase utility networks
Government proposals for utility cuts for industry and households next year will be submitted for social consultations, Prime Minister's Office leader János Lázár announced. These include renationalising the country's energy storage facilities, as well as the infrastructure for the delivery of electricity, energy distributors and energy service providers. The government intends to buy all foreign companies that own utility infrastructure by 2017, according to a draft document obtained by *Index* from the PMO. Household gas distributors Elmű-Émász, EdF and Tigáz are to be bought, along with the network infrastructure companies belonging to Elmű-Émász, EDF, Égáz-Dégáz and E.ON. The purchases are to be financed by loans totalling HUF 566-596bn (EUR 1.8-1.9bn) from the state development bank *MFB*, according to the document. That method will not add to the budget deficit, but such loans will be banned by the EU from 2021.

Monetary and Budgetary policy

MNB promises no base rate change until 2018
The present 1.35% base rate could remain in effect until 2018 or even 2019, MNB deputy governor Márton Nagy told reporters. Speaking on the side-lines of a Portfolio conference, he said a combination of accelerating inflation and a stable base rate will result in negative real interest rates. This, however, is necessary so long as actual GDP growth is below its potential, Nagy argued. Moreover, the MNB will publish a wide-ranging plan for developing the BSE by the end of the year, Nagy added. Listings of shares in state companies and SMEs will be promoted, with a new separate

category for the latter. On the demand side, Nagy said, voluntary pension and health funds and households will have incentives to purchase BSE shares.
According to a recent analysis of London-based Morgan Stanley, the Hungarian economy is experiencing a domestic demand-led recovery against a relatively benign inflation backdrop, but inflation is set to accelerate sharply in the near term, due to energy-related base effects. This will mean that although the central bank (MNB) will likely resume easing, it will wait until the second quarter of 2016, when inflation eases again.

Budget deficit hits HUF 954.6bn (EUR 3bn) in Q1-3
According to final figures, the budget deficit reached HUF 954.6bn (EUR 3bn) in the first three quarters, 107% of the year-end target, Economy Ministry undersecretary Richárd Adorján announced. As the EU has lifted its suspension of some subsidy payments, some HUF 13bn (EUR 42mn) arrived earlier this month and a further HUF 205bn, Adorján said, adding that the timing depends on the ongoing negotiations. According to research company *Kopint*, Hungary's fiscal position remains stable, as the budget deficit shrank to 0.3% of GDP from 2% in the first quarter, which makes the government's 2015 deficit target of 2.4% attainable. Tax revenues came in higher across the board than foreseen in the budget, but spending was also higher, due to the pre-financing of EU funds from the budget. Kopint expects the state debt to fall to 75.5% of GDP this year and 74.7% in 2016.

Domestic savings finance budget gap
Hungarian retail investors increased their holdings of forint-denominated government debt by HUF 48.8bn (EUR 156mn) in September to HUF 3.15trn (EUR 10bn) in total, state debt manager ÁKK announced. The volume of government bonds owned by households has grown by impressive 30% so far this year. In the first nine months, households bought HUF 831bn (EUR 2.7bn) of government bonds, which corresponds to Hungary's net financing need. This means that domestic savings covered the budget's financing needs, the ÁKK noted. It is also worth adding that Hungarians working abroad transferred a record HUF 920bn (EUR 2.9bn) home last year, an amount equal to roughly 3% of GDP, according to *Világgazdaság*. Such remittances amounted only to HUF 684bn (EUR 2.2bn) in 2012.

Employment

Jobless rate drops to 6.4%
The unemployment rate fell to 6.4% in the July-September period, down from 7.4% in the same period of 2014, and lower than analysts had expected, the Central Statistics Office announced. The unexpectedly good numbers were due to the rise in the number of public workers, which now account for 5.3% of the active workforce, or 226,000, analysts of *Erste Bank* pointed out. The number of unemployed averaged 293,000, which is 39,000 less than one year earlier. Unemployment among those aged 25-54 fell from 6.2% one year earlier to 5.6% and declined from 6.4% to 5.4% among the 55-64 age group. However, the average duration period of unemployment grew to 19.3 months from 18.9 months one year earlier. Analysts expect the unemployment rate to fall from 7% this year to 6.5-6.6% in 2016, with the private sector accounting for much of the job creation.
Hungary's competitiveness, though, is coming under pressure due to the lack of a proper workforce, Napi gazdasag notes. He goes on to note that according to labour statistics, more than 71,000 workplaces are unfilled. The lack of qualified workers is a major challenge for logistics companies as well as for the automobile sector and processing industry.

Salary gap getting wider
Income inequality rose this year, as reflected in the salary gap between top executives and the lowest-paid employees, according to research by Simconsult and Trenkwalder. After examining data on 56,000 employees, they said top executives receive HUF 3.4mn a month, including bonuses and other salary elements, 28 times as much as low-level employees are paid. Wages have gone up 3-4% over the last 12 months, and, with a lack of skilled workers in some sectors, further pay rises may follow, forcing some companies to review their wage budget. The report found that employees in engineering and trade are most likely to benefit from above-average wage increases. In general,

foreign companies pay on average 5-10% more than their Hungarian counterparts, while larger companies tend to pay higher salaries than smaller companies do.

Events

Seminar on international trends in tax law
The *Netherlands-Hungarian Chamber of Commerce* organized a business seminar in partnership with Jalsovszky Law Firm and DBH Group on November 18th.
After the welcoming words of Dr. Sándor Erdei, CEO of *DBH Group* Dr. Pál Jalsovszky, Managing Partner and Dr. Tamás Fehér, Tax Advisor of *Jalsovszky Law Firm* held a presentation about the trends in international tax planning. They explained the basics of double taxation, the advantages of the different holding company structures and why Hungary is an ideal IP holding country. Finally showed different BEPS scenarios (Base erosion and profit shifting) which will have impact on the present stuctures.
The next speaker, Marcel Bollen, Partner at *Baat Trust Services BV* presented the corporate tax environment in the Netherlands. His presentation gave guidance on establishing a company in the Netherlands, on the NL-HUN tax treaty, corporate income tax and the fiscal aspects of labour. Finally, Dr. Rita Solti, General Counsel of DBH Group gave a comprehensive overview about the legal aspects of establishing a company in the Netherlands.