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Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

Editorial

The month of September was characterised by speculations over the next year budget and possible ways of solving the forex mortgage problem. The draft of the 2014 budget was finally submitted to Parliament on the last day of September. The most important figure for many was the deficit target, which has been set at 2.9%, just below the 3% Maastricht threshold, with dangerously low levels of budgetary reserves. The Fiscal Council, while seeing the draft budget as achievable, called on creating new risk analyses for certain items. Most of the analysts agree that this year's budget is going to be an "election budget", although the budgetary details of some important promises of the government such as reduction of VAT for meat products or solving the forex mortgage problem are not clarified yet.

On the macroeconomic front, the recent indicators give a mixed picture. The GDP figure was up 0.5% year-on-year in the second quarter spurred by an improved output in construction and agriculture, and a turn-around in consumer spending. However, the industrial sector shrank by 0.8% year-on-year. A modest turn-around in the business expectations can be also detected, for instance the GKI's latest economic sentiment index is the highest in almost 30 months, and the improvement can be attributed to a surge in consumer confidence in the wake of government mandated utility tariff reductions.

As to the Embassy activities in September, the new ambassador Gajus Scheltema presented his Letter of Credentials to President János Áder on September, 25th, last. One of his first activities was to meet the Dutch companies present in Hungary at a business lunch of the Dutch Chamber. Deputy Head of Mission Bert van der Lingen went to Eger to hand over a service truck of the Monuments' Watch of the Dutch province of North Brabant to their Hungarian counterparts, the Forster Centre. The Embassy also participated in the kick-off event of Metropolis, a workshop organised for Hungarian decision-makers, professional and municipal leaders and experts. Participants had a possibility to meet Dutch expert Charles van Marrello and to analyse and discuss current urban development programmes of Budapest. Last but not least it is also worth mentioning that on October 10 and 11, the Embassy in cooperation with Dutch Sports Infrastructure will host a stadium delegation from Hungary. The programme is aiming at exchanging expertise in the field of stadium development.

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

EU relations

EU funds resumed

As it was expected, after negotiations between PMO state secretary János Lázár and Commissioner for Regional Policy Johannes Hahn, the EU resumed funding for environmental, energy, transport and social infra-structure projects under the framework of the EU's operative programme. Hungary has to pay a fine of EUR 230-250mn, equal to 5% of the suspended funds.

However, fund payments are behind schedule and only 28 months remain to draw down the funds until the end of 2015 (due to the n+2 rule). The rate of disbursement of EU funding in mid-2013 was 48% in Hungary, whereas the same figure for the Czech Republic was 42%, for Slovakia was 45%, and for Romania 26%.

At the present rate of disbursement to applicants of an average HUF 100bn a month (EUR 0.3bn), HUF 2.8 trillion (EUR 9bn) would be paid in that period. Hungary will draw every cent of the funds, Lázár affirmed, adding that to this end decision-making has been accelerated since August. It is worth recalling that the EU subsidies account for 97% of fixed capital investments in Hungary, a higher percentage than in any other member state, while the EU average is slightly above 10%.

Macroeconomy

Domestic spending and investment lift GDP by 0.5%

Hungary's GDP was up 0.5% year-on-year in the second quarter and grew by 0.1% from the first quarter, spurred by a improved output in construction and agriculture, and a turn-around in consumer spending, the Central Statistics Office reports. The structure of growth showed significant changes from the previous quarter, *Napi Gazdaság comment*s. After falling for eight straight quarters, domestic demand strengthened in the April-June period. Gross fixed capital formation was 4.9% higher, due mainly to state infra-structure projects, as the construction sector expanded 6.9% year-on-year.

To the surprise of some analysts, the industrial sector shrank, falling 0.8% year-on-year. The biggest decline occurred in the pharmaceutical sector, due to fading external demand. The 17.2% rise in agricultural output was due in part to low base figures. Analysts said the growth in domestic consumption underpinned a healthy switch from dependency on external market conditions, but warned that growth remains fragile.

Budgetary policy

The 2013 Budget modified repeatedly

Economy Minister Mihály Varga submitted amendment proposals to the 2013 budget which was actually the seventh modification of the budget this year. The changes this time were made necessary by the government's latest decisions, e.g. a wage hike for teachers. The approved amendment proposals increase expenditures by gross HUF 255bn (EUR 0.8bn). A part of this, however, will be covered at the expense of the Country Protection Fund. On the whole, the budget deficit will rise by HUF 171bn (EUR 570mn) on this modification (related to the purchase of E.ON's local gas business and the integration of savings co-operatives). Hungary is to send Eurostat, the EU's statistical office, a report on government deficits and debt levels (Notification) by 30 September and the above items will be listed according to EU accounting rules in that. The ministry insists that these two items will likely not affect the accrual-based balance (ESA95 methodology).

The outcome of consultations between the officials of the Economy Ministry and Eurostat are hugely important (results are expected to be revealed in October). If Hungary is obliged to include these spending items in the ESA95 balance then - without further corrective measures - the shortfall would rise by HUF 171bn, i.e. to over 3% of GDP. And that is one thing the cabinet cannot allow to happen, for exceeding the EU threshold would risk the reopening of the excessive deficit procedure (EDP) against Hungary, forcing the government to table yet another fiscal adjustment package. As to the implementation of this year' budget, by the end of August the shortfall exceeded HUF 961bn (EUR 3.2bn)., which is already 10% over the full-year (cash flow-based) target.

The 2014 Budget submitted on time

Economy Minister Mihály Varga filed a 1,092-page long budget for 2014 to Parliament, forecasting 2% GDP growth next year. He confirmed that the government is basing the budget on a 2.4% inflation rate and an exchange rate of HUF/EUR 296.9, and has set a deficit target of 2.9% of GDP. The deficit target is HUF 924bn (EUR 3.1bn), down from the HUF 1,050bn modified target for this year. Varga stressed that keeping reserves high provides enough security despite the tight planning. There will be HUF 100bn (EUR 0.3bn) general reserves and HUF 100bn in the Country Protection Fund, which should be a large enough buffer to manage unforeseeable expenditures. The general parliamentary debate will start soon, while the final vote will take place only by the end of December.

Reactions to the 2014 budget draft

The Fiscal Council, the official body to oversee the budgetary policy, believes the 2.9% of GDP budget deficit target to be set for 2014 is achievable, just like the prognosis for 2% economic output growth. However, the latter figure is in the upper end of the estimates it finds possible to reach, the Fiscal Council pointed out. Therefore it recommends that the government creates a new risk analysis on certain revenue and spending items and in determines the size of the necessary reserves in view of the findings.

There is no manoeuvring room whatsoever in Hungary's budget either this year or next, the Fiscal Responsibility Institute Budapest (FRIB), an independent research institute concluded in its latest technical projection. It underlined that there are no funds of any kind to fend off negative risks or for measures that would lead to higher expenditures and lower revenues, such as the mulled reduction of the VAT rate on meat, the extension of family benefits or the wage hike for teachers in 2014.

If the government still decides to implement these measures - which is very likely - new fiscal adjustment packages will be needed next year, but these will presumably be implemented only after the elections in the spring. This scenario, however, could be altered by the European Commission's economic outlook to be published in November.

Monetary policy

USD denominated bond issue under preparation

The state-owned Hungarian Development Bank (MFB) mandated Citigroup, Deutsche Bank and J.P. Morgan to arrange meetings with fixed income investors for a possible dollar-denominated bond offering. Hungary could issue a dollar bond in mid-October, under optimal circumstances, the deputy head of the Government Debt Management Agency (ÁKK) admitted to the daily Magyar Hirlap. Hungary's last US dollar bond issuance took place in February 2013, when the State Debt Management Agency issued two series worth a total of USD 3.25bn (EUR 2.4bn). Hungary has a EUR 1bn bond expiring in January 2014 and total foreign currency expiries of about EUR 5.4bn next year, including repayments of a loan to the European Union. According to press reports, the Hungarian government is also examining the possibility of issuing in Turkish lira in the future. Note that Hungary's public debt is the highest in Central and Eastern Europe in terms of gross domestic product.

MNB adds HUF 2 trillion to stimulus lending programme

The MNB will expand its funding for growth scheme by an additional HUF 2 trillion and extend it until the end of 2014, governor György Matolcsy announced. The programme was launched in June with HUF 750bn (EUR 2.5bn). The monetary council found the lending scheme very successful, that is why it chose to continue it, he added. The conditions of the lending programme will not change, as the MNB will continue to offer zero-interest loans to banks to be lent to SMEs at rates of no more than 2.5% for up to 10 years. The first phase of the lending programme ends on September 30. To start the second, HUF 500bn (EUR 1.6bn) will be made available to banks from October 1.

Of the HUF 425bn (EUR 1.4bn). extended to commercial banks under the first pillar of the scheme to date, 40% went for loan refinancing and 60% for new loans, said Deputy Governor Ádám Balog. In the second pillar, HUF 325bn (EUR 1.1bn). was provided for the conversion of foreign-currency debt to HUF loans. The second phase of the scheme will focus mainly on new loans and loan refinancing.

Employment

Unemployment pushed under 10%

The number of employed people in Hungary was 3.980 million in June-August, 66,000 more than a year earlier in the 15-74 age group, the Central Statistics Office (KSH) has reported. The number of unemployed people has dropped further to 439,000, but this small decrease was enough to take the U-rate to below 10%, albeit by only a hair, to 9.9% in the June-August period.

While the main employment figures are convincingly on the rise, there is no sign of a breakthrough improvement in the private sector although corporates have not just cut their headcount, but also reduced working hours in order to avoid layoffs. The Central Bank (MNB) data also confirmed that although the level of employment is back at pre-crisis levels, this state was achieved via public work programmes and an ever higher number of Hungarians working abroad.

Competitiveness

Hungary sinks to new low in competitiveness ranking

Hungary has slipped three notches to 63th place, an all-time low, in the World Economic Forum's competitiveness report for 2013-14, the Forum's Hungarian partner institute Kopint-Tárki announced. Hungary had already fallen from 48th to 60th in the previous year. The global competitiveness survey ranks 148 countries on 12 criteria, such as competitiveness, innovation, bureaucracy and macro-economic environment, based on the opinions of 13,000 executives. Hungary was placed 24th among the 28 EU countries and was last in the region regarding several indicators. The main reasons for Hungary's weakening competitiveness are difficulties in securing loans, an unstable economic environment, corruption and high taxes. There are also problems in the institutional system and innovation, even when compared to its regional peers. Hungary received good scores for health care services, inflation and regulations on foreign-currency loans. In the same ranking, the Netherlands is in the top league and currently ranked as 7th most competitive economy.

SMEs

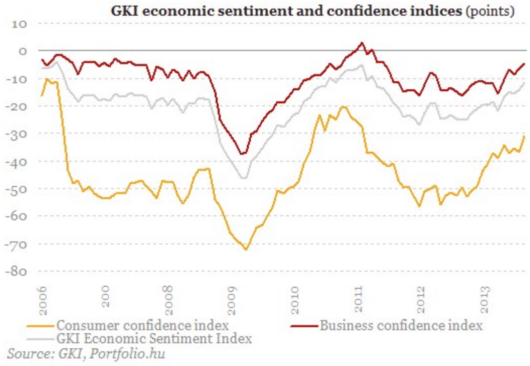
SMEs to receive a big share of EU funds

The government will earmark HUF 1.1trn (EUR 3.6bn). of the HUF 7.3trn (EUR 24bn). funding expected from the EU in the 2014-20 budget period for improving the competitiveness of SMEs, Economy Ministry state secretary Zoltán Cséfalvay said. He told a conference hosted by *Világgazdaság* that another HUF 1.2bn (EUR 4mn) of the EU. The funds will go to improving workers' mobility, employment and job creation among SMEs. The cabinet plans to allocate HUF 708.8bn (EUR 2.6bn). for research and development, HUF 870bn (EUR 2.9bn). for sustainable transport projects and another HUF 500bn (EUR 1.6bn) for projects designed to enhance energy efficiency.

Business environment

Business confidence slightly improved

The GKI Erste economic sentiment index improved to -11.6 points in September from -14.3 points in August, Hungarian think tank GKI, the publisher of the index, reported. The new figure is the highest in almost 30 months, and the improvement can be attributed to a surge in consumer confidence in the wake of government mandated utility tariff reductions. The new figure is the highest since April 2011 (-9.1).



In September, every segment bar service companies in the business sphere became more optimistic. The industrial confidence index is now close to its 2012 spring level.

The assessment of the production of the preceding period, as well as that of the production of the next three months improved. The GKI consumer confidence index rose markedly in September after a drop in August. Households assessed their financial situation for the following year slightly better and their saving capacity a lot better than last month. People considered the current conditions of purchasing high-value durables somewhat better than before.

GYIA index signals growth ahead

The acceleration indicator GYIA, a measure of future economic growth compiled by *Világgazdaság*, rose by 1% in September, the fastest pace in two years, suggesting that the country has emerged from recession. The month-on-month growth was the highest since the onset of the economic crisis in 2008. The rise in EU-financed projects and the MNB's "Funding for Growth" programme, as well as growing confidence in the euro zone, could lift the indicator in the next three months, *Világgazdaság* writes.

Dutch presence in Hungary

FerroElectronics rewarded as best supplier

FerroElectronics received the first price for the best supplier of the year from Frima which is the French subsidiary of the German kitchen manufacturer Rational Group. The Budapest based FerroElectronics has been supplying thick-film contact heating elements to Ferro Techniek BV in Gelderland which then are used in the VarioCooking products, among others. The selection of FerroElectronic as the best strategic supplier was based - beside the product quality – on factors such as reliability, complaint handling, cooparation and continous product development.

Transport/Logistics

EBRD to fund new BKV ticket system

Budapest city council approved a loan agreement with the EBRD on part financing of an electronic ticketing system for the city's public transport services. According to *Napi Gazdaság* that the Budapest Transport Centre (BKK) will be granted an eight-year, EUR 54.5mn loan. Paper tickets are to be replaced with electronic cards in a gradual process starting next year and concluding in 2015.

EU calls e-toll fees excessive

The National Development Ministry has initiated consultations with the EC, following press reports that Hungary's electronic road toll system is not in line with EU rules. The EU has said that the fees charged are higher than presented by the government in November 2012 and in February 2013, and that important data is missing from the model calculations, *Népszabadság* reported. The fees charged for trucks above 3.5 tonnes are not in line with the cost of infrastructure maintenance, which is the rule in the EU, set in accordance with Eurovignetta guidelines.

Wizz Air to increase flight frequency

Wizz Air will base its eighth aircraft in Budapest from next April as part of plans to increase seat capacity by 20% to an annual 2.9 million, CEO József Váradi announced. The number of weekly flights to London will rise from 20 to 28, and Wizz Air planes will fly more frequently from Budapest to **Eindhoven**, Barcelona and Istanbul next year. There will be 35 destinations available from Budapest from April. Recently Wizz Air opened links to Baku, Dubai, Istanbul, Malta and Moscow in 2013, which helped to boost the number of tourists visiting Hungary, Váradi pointed out.

Energy/Sustainable energy

More subsidies for home insulation

The Development Ministry is allocating a further HUF 3bn (EUR 10mn). to the Green Investment Programme II for the insulation of concrete blocks of flats, the ministry announced. In the tender announced by the previous government in 2009, approved applications for a total of HUF 14bn (EUR 46mn) had to wait, as the funds run out. Now HUF 3bn (EUR 10mn) from the sale of Hungary's carbon emission quota will be injected into the program. This will help 4,700 families and will gave a HUF

6.5bn (EUR 21mn). order to the construction industry, the ministry pointed out. Earlier HUF 1.6bn (EUR 5.3mn). was allocated to the scheme from carbon emission quota sales.

Gas subsidies law to change

Certain subsidies incorporated in gas and electricity bills will in future be paid only by business customers, not by households, under a bill submitted on 27 September by Fidesz MP and government commissioner for utility bill cuts Szilárd Németh. The bill states that the cost of financing loss-making, state-owned, coal-fuelled power station Vértesi Erőmű (the so-called “coal cents”) will be incorporated in electricity bills for business consumers only. In addition, only businesses will pay the cost of the subsidy for energy industry workers’ electricity bills and for companies that provide block heating. The coal cents will increase from HUF 0.08 to HUF 0.17 per kWh, the cost of the energy workers’ price subsidy from HUF 0.07 to HUF 0.2 and the block heating charge from HUF 1.31 to HUF 1.71. As a result, households will pay HUF 1.46 less per kWh and company consumers will pay HUF 0.62 more. The bill also orders electricity, gas and heat providers to charge only 88.9% of the prices valid on October 31 from November 1 in case of households.

MOL sells Siberia subsidiary

MOL has successfully sold its 100% stake in MOL Western Siberia as part of a portfolio optimalisation, the energy company announced. MOL Western Siberia owns the exploration licence for the Surgut-7 field, which has close links to the Zapadno-Malobalykskoye (ZMB) field, where exploitation has fallen from a daily maximum of more than 27,000 barrels in 2005 to less than 7,000 today. MOL affirmed at the time that it remains strongly committed to its operations in Russia, especially the Baitugan and Matyushinsky blocks.

Environment/Water

Over 100 countries to attend water summit in Budapest

More than 100 countries and international organisations will attend the October 8-11 Budapest Water Summit, Foreign Minister János Martonyi announced as he addressed the UN General Assembly in New York. UN Secretary General Ban Ki-Moon will open the meeting, along with host President János Áder. The summit is expected to approve proposals related to UN development goals for the period beyond 2015.

Donau Chemie opens treatment plant

Donauchem, the subsidiary of Austria’s Donau Chemie, has inaugurated a water treatment chemical plant in Kazincbarcika on the grounds of the BorsodChem factory. Based on the agreement between the two companies, Donauchem will use Borsod-Chem’s citric acid by-products to produce iron-chloride and polyaluminium. Production capacity will rise to an annual 105,000 tonnes in three years, with 60% of the production going for export.

Agriculture

Farmers harvest 28% more wheat

Farmers have harvested 5.14 million tonnes of autumn wheat, 28% more than last year, the Central Statistics Office announced. This year's yield is 17% higher than the average of the past five years. Yields this year reached 4.73 tonnes per hectare on average, 25.9% higher than in 2012.

Industry

Rába gets domesitic orders

Rába obtained an order from the Pécs public transport company to deliver five articulated buses, the state-owned automotive company announced. Rába recently won an order from state coach holding company Volánbusz to deliver 61 buses from the spring of 2014. As these buses will be made within the frame of the co-operation agreement between Rába and Volvo, much of the work will be done outside Hungary. However, this contract will expand the capabilities of the Rába factory in Győr, the Hungarian company added. The total value of the order is near HUF 10bn. (EUR 33mn).

Construction/Infrastructure

Közti wins Puskás stadium contract

Architectural firm Középület-tervező (Közti) has won a HUF 2bn (EUR 6.6mn). invitational tender to design the new Puskás Ferenc stadium, the EU public procurement newsletter reveals. Közti is the legal successor of Középület-tervező Vállalat, which holds the design licenses of the former Népstadion, now Puskás stadium, *Napi Gazdaság* notes. Construction of the stadium is set to start at the end of next year, and is to be finished by 2017 from a HUF 70-90bn (EUR 250-270mn) investment. The company, grouping five architectural firms, has also won state contracts for the renovation of Kossuth tér, as well as the reconstruction of the Sándor Palace and of the Várbazár below Buda Castle.

Közgép, Colas to extend M4

A consortium of construction companies Colas Hungary and Swietelsky Magyarország has won the contract to extend the M4 motorway, with a bid of HUF 46.7bn. The winners are to extend the motorway east from Abony, Pest county to Fegyvernek in Jász-Nagykun-Szolnok county. The second part of the extension will be built by the Acél-Híd consortium of Közgép and A-Híd Építő for HUF 32.5bn (EUR 108mn). This section includes a bridge over the Tisza river.

KC-2013, the consortium of Közgép and Colas Hungária, has won a HUF 4bn (EUR 13mn) tender announced by the Budapest Transport Centre (BKK) for the reconstruction of the flyover on Kerepesi út, near Keleti train station, it was announced in the Tenders Electronic Daily. The BKK initially estimated the tender's value at HUF 3.5bn (EUR 12mn). The Közgép consortium was selected ahead of the consortium of Híd Építő and Strabag-MML, another led by Subterra and a third led by Győr-based Doprastav RBR.

Services

HITA angling to lure service centres

State investment and trade agency HITA is managing 25 projects related to the opening or expansion of company service centres in Hungary, foreign trade state secretary Péter Szijjártó told a conference. If all these projects are successful, he said, it could create 7,000 jobs. One half of the potential investors are companies expanding existing operations in Hungary, the other half would be newcomers, he added. At present there are almost 80 service centres in Hungary, employing 30,000 people.

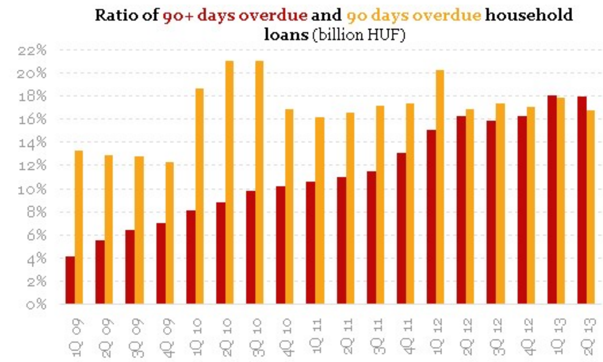
In a separate event, it was announced that IT equipment and parts trader Systemax will create more than 500 jobs as it opens a new service centre in Budapest. Systemax, present in Hungary since January, opted for the country because of its political stability, business environment, good education system and solid hard-working employees. Systemax will also establish its IT centre in Budapest, as the city will be the company's regional hub for Emerging Europe, Africa and the Middle East.

Financial services

"Brainstorming" on Forex loans continues

The Hungarian government has previously given banks operating in Hungary until 1 November to come up with a proposal to phase out foreign currency mortgages or face a government solution that would "eliminate" these loans.

After an earlier repayment scheme that pushed banks into losses worth about a billion euros, banks fear a new relief program for households could bring more pain ahead of an election next year.



Source: NBH, Portfolio.hu

But Economy Ministry State Secretary Gábor Orbán ruled out a drastic fix, such as converting the entire stock of CHF mortgages held by Hungarians in one go, which could pose a threat to the HUF and the banking system. "*I can rule out any conversion which would disrupt the market or have adverse consequences for central bank foreign exchange reserves in the sense that we wouldn't want to push them too low*," he said.

In turn, Mihály Patai, the head of Hungary's Bank Association warned that a quick conversion of more than 10bn CHF worth of loans into HUF could undermine the forint currency if banks had to buy this currency in the spot market. Central bank Governor György Matolcsy has also expressed opposition against a one-off conversion of these loans but said, if necessary, the bank would be ready to contribute some amount of its reserves to a program at prevailing exchange rates.

The government would review its options in November, including those presented by the Banking Association, and select the one which posed the least risk to the economy and achieved the objective of phasing out the forex loans. Foreign banks whose Hungarian units may be hit by a new mortgage relief scheme include Austria's Raiffeisen and Erste, Germany's Bayerische Landesbank and Italy's Intesa Sanpaolo. Hungary's dominant banking player is homegrown OTP.

It should be remembered that Hungarians hold HUF 1.81 trillion (EUR 6bn) in foreign-currency mortgages and another HUF 1.68 trillion in foreign-currency home-equity loans, which can be used for purchases other than homes. The loans account for 13% of the country's economic output, according to data compiled by the European Bank for Reconstruction and Development (EBRD). About two- thirds of Hungarian mortgages are denominated in CHF.

Research/Innovation

Intellectual property strategy formed

The cabinet has approved an intellectual property strategy, *Napi Gazdaság* reports. The Ministry of Public Administration and Justice is to develop a national plan through the Intellectual Property Office.

Telecommunication

NMHH to sell frequency bands

The sale of frequency bands, including at 800MHz, may start before the end of the year, media and telecoms authority NMHH told *Napi Gazdaság*. The NMHH has created the legal back-ground for the frequency sale, and, as it favours market competition, will create an opportunity for incumbents and potential new entrants. The 800 MHz frequency was earlier used by broadcaster Antenna Hungária for analogue TV, but this activity will cease by the end of October.

Kapsch-MVM Ovit wins GSM-R tender

Kapsch Carrier, in partnership with MVM Ovit, has been awarded the HUF 13.7bn (EUR 45mn) contract to build the internal GSM-R communications system for state railway company MÁV. Telecoms service provider NISZ invited bids last December. GSM-R technology allows communication between trains and rail control centres. In the first phase, Kapsch and MVM Ovit will install the technology on 935km of track.

Telecom companies locate service centres in Hungary

Vodafone Hungary announced that it will invest HUF 450mn (EUR 1.5 m) from 2014 to 2015 in its regional customer service centre in Miskolc, northeast Hungary, creating 240 new jobs. The carrier's investment is the result of a programme signed with Miskolc authorities in 2009, valued at more than HUF 1bn. Vodafone has already started recruiting staff for the new positions. Miskolc mayor Ákos Kriza announced that the city is providing a regional investment subsidy of HUF 130mn for the project. Vodafone has undertaken not only to maintain its existing 300-strong headcount at the centre, but also to add 240 new jobs. Vodafone Hungary Chiarman György Beck reminded that in 2009 five towns were competing to host Vodafone's regional customer service centre.

Interestingly, Deutsche Telekom is also to set up its International TV Service Centre in Hungary, to co-ordinate the development of high added value television services of its subsidiaries in Croatia, Greece, Macedonia, Montenegro, Romania, Slovakia and Hungary. Magyar Telekom was the first to launch

IPTV in Hungary in 2006, and introduced satellite TV services offering new, interactive services in 2011.

Retail

New Tobacco regulation boosts black market

According to NAV data, a total of 623 million cigarettes were sold in July, almost 40% fewer than in June when new regulations on tobacco retailing entered into effect.
The government decided in 2012 that the sale of tobacco products would in future be limited to just around 5,000 licensed vendors - compared to 45,000 retailers before. Legislation approved last September effectively established a state monopoly on the retail sale of tobacco products from 1 July 2013. When the new regulation came into effect tobacco was a good business in Hungary, with 38% of the population smoking, 15% being ex-smokers and only 47% never lit up in their life. This was a cc. HUF 400bn (EUR 1.3bn). market, 80% of which is paid excise tax, 5-10% is the purchase price (depending on the brand) and 10-15% is left for anything else. This HUF 40-60bn (EUR 166-200mn) is no clean profit, however, because the wholesalers have two other major cost items, distribution and sales. According to NAV figures, sales of tobacco producers declined by about 30% year on year by mid-summer. The black market is especially strong in towns close to borders, such as Miskolc, Nyíregyháza, Kisvárda, Baja, Esztergom and Békéscsaba, the newspaper adds.

Luxury store opening on Andrássy

Il Bacio di Stile, a luxury shopping venue will open next week in a six-storey building on Andrássy út, *Napi Gazdaság* reports. According to modest estimates, owner György Gattyán invested at least HUF 5bn (EUR 16mn). in the project. An adjacent building off Andrássy út was purchased for HUF 800mn (EUR 2.7mn) and added to the complex. Shoppers will be able to buy high-end branded products from Bottega Veneta, Brunello Cucinelli, Jil Sander, Jimmy Choo, Michael Kors, Salvatore Ferragamo, Tod's and Valentino.

Food industry

Lowering VAT on meat products in the pipeline

The reduction of the VAT on meat products from 27% to below 10% would not only have a large impact on budget revenues, but may have to be harmonised with EU rules, *Népszabadság* writes, after Prime Minister’s Office leader János Lázár said the government is considering such a step. The EU allows countries to apply two preferential rates along with a standard VAT rate. Hungary applies 5% VAT on pharmaceutical products and textbooks. An 18% rate is set for dairy products, as well as bread, cakes, and other baked goods.

To comply fully with EU norms, either the VAT on meat products needs to be lowered to 5%, or the 5% rate for drugs and textbooks would have to be raised to the 10% charged for meat products, *Népszabadság* writes. Representatives of the agriculture and food industry have long been pressing for a cut in the 27% VAT on foods, the highest rate in Europe. Such a move would not only boost consumption, as it would bring down retail prices, but would reduce the black economy, which is estimated at 30-80% of the market in some agricultural sectors. President György Vámos of retail trade association OKSZ agreed that a VAT cut would help to whitewash the economy.

Events

Budapest Water Summit -Business Leaders Forum and Expo
Date: 8-11 October 2013
Organiser: Ministry of Foreign Affairs, Hungary
Venue: Millenáris Park
More info: www.budapestwatersummit.hu

Translog Connect Congress
Logistics and Supply Chain Management Event for Central-Eastern Europe

Date: 27-28 November 2013
Organiser: TEG
Venue: Corinthia Grand Hotel Royal Budapest
More info: www.translogconnect.eu

The Royal Netherlands Embassy in co-operation with Port of Rotterdam is sponsoring the event Translog Connect Congress and Exhibition which will be held on 27-28 November in Budapest. This event gives an excellent opportunity to meet the leaders of the Transport and Supply Chain Management industry. The Embassy has the opportunity to invite a limited number of Dutch companies in the transport/logistics business to this event and/or exhibit their promotion material at the Embassy stand. If you are interested, let us know at: bdp-ea@minbuza.nl. More information on the programme is to be found **on:**
www.translogconnect.eu

Renexpo Central Europe-International Energy Trade Fair and Conference
Date: 12-13 March 2014
Organiser: Reeco
More info: http://renexpo-budapest.com/index.php?id=7&L=1

Stadium Mission in the Netherlandshosted by Dutch Sports Infrastructure
Date: 9-11 October, Amsterdam
More info: http://www.dutchsportsinfrastructure.nl/october-10-11-incoming-mission-hungary/