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Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

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Dear Reader,

The most important event of the month of April was that the European Commission has finally given a green light to a possible start of the IMF/EU negotiation on the credit facility. This was the main result of the Orbán-Barroso meeting in Brussels on April 24. Hungarian stocks, bonds and the forint rallied on this news. The Hungarian government also announced the Széll Kálmán Plan 2.0, a new package of austerity measures that also included the revised Convergence Programme. The programme, which envisages more than HUF 600bn (EUR 2.1bn) budgetary adjustment, might bring the EU's excessive deficit procedure against Hungary to a closure, although the new taxes dominate instead of the structural measures. Measures seeking to keep Hungary's deficit at 2.5% of GDP this year and at 2.2% in 2013 will also ensure that the EU does not suspend cohesion funds for the country. Furthermore the Hungarian government hopes that those achievements would accelerate future negotiations with the EU/IMF.

As to the debated issues with the Commission, some progress had been achieved during the Orbán-Barroso meeting in the field of the Law on the Central Bank, but in two other cases the EC decided to continue the infringement procedure and referred the cases of the judicial reform and the legislation on the Data Protection Ombudsman to the European Court. The IMF welcomed the progress made in talks between Hungary and the EC, but is ready to start loan talks only when the adequate steps are taken to ensure the independence of the central bank. Analysts believe that the agreement with the IMF/EU can be achieved in the Autumn, the earliest.

As to the Embassy news, on April 26 the traditional Queen's Day Reception was celebrated at the Residence of the Ambassador Robert Milders. The attendance was very high and the atmosphere very good. The event was well sponsored by Dutch companies. Beside the representatives of the Hungarian politics and the public administration, the members of the Dutch business community in Hungary were also present in large number.

It is also worth of mentioning that the first Dutch self-propellered vessel loaded in the south part of Constanta port arrived to Budapest on the Danube. This first transport was a trial organised by Veka, one of the biggest Dutch shipbuilding and logistics provider, which is considering opening a regular container line on the Danube using vessels of this type.

Bert van der Lingen	*Martijn Homan*	*Marina Varga*	*Éva Szabó*
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EU relations

PM Orbán meets EC President Barroso

The European Commission is satisfied with the changes Hungary implemented to the central bank statute, but refers Hungary to the Court of Justice on the independence of the data protection authority and measures affecting the judiciary. The Commission noted progress on a number of issues, notably as regards Hungary's central bank statute where the Hungarian government committed to take into account the Commission's legal concerns and to amend its national legislation. "*In two further cases, the legal concerns of the Commission could not be remedied. The Commission therefore decided today to refer Hungary to the Court of Justice of the European Union for two infringement cases concerning the independence of the data protection authority and the retirement age of judges, prosecutors and public notaries*," the EC said in a statement.

VAT refund issue in the European Court

EU funding of HUF 200bn (EUR 670mn) could be at stake if Hungary loses its appeal to the European courts against a EC decision related to two cases banning the use of EU funds to cover VAT costs related to infrastructure projects, business daily *Világgazdaság* reported. Hungary argues that VAT costs were included because the state-owned infrastructure company could neither reclaim VAT nor include it in its bills. The commission said, however, that the state would ultimately receive the VAT back in the motorway fees paid by users. Hungary launched the court case against the Commission in February and September 2010. Hungary will have to cover the VAT costs related to the investment out of its own budget if it loses, the paper said.

IMF tough on conditions to start negotiation

Hungary cannot negotiate with the International Monetary Fund on precautionary financing it is seeking until Parliament approves amendments to legislation, **Tamás Fellegi**, Hungary's chief negotiator at the talks, said in an interview published in *Világgazdaság*.

Fellegi said amendments affecting about a dozen changes had to be made. He added that there was no deadline for approving the amendments, but the EC had decided it would not start the negotiations until these steps took legal force. He said the talks the timetable for the formal talks could be drawn up in May, but summer breaks at European Union organisations could also influence the timing. The starting point of the talks is that Hungary seeks a precautionary-type financial package, the size of which will be determined at the negotiations, he added.

Asked why the government has said it does not want to call the money down, Fellegi said this would not be market financing. Long-term, sustainable financing has to come from the market, he added. Speaking about Hungary's flat-rate tax, Fellegi said there were some deeply staked decisions of Hungary's current economic policy that transcend direct fiscal effects, that are backed by important social philosophy and long-term strategic considerations. One of these is the proportional tax system, he added.

Economic policy

New package of austerity measures announced

Hungary's government unveiled the "Széll Kálmán Plan 2.0″, an updated version of a structural reform plan presented about a year ago. Measures contained in the updated plan, which was also sent to the EC will improve the fiscal balance by a further HUF 150bn (EUR 500mn) in 2012 and by HUF 600bn (EUR 2bn) in 2013, the government said on its website.

The government noted that 83.4% of the HUF 550bn (EUR 1.8bn) improvement outlined for 2012 in the first Széll Kálmán Plan had been achieved, and government decisions taken thus far had supported the achievement of 73% of the targeted improvement for 2013. The measures add up to about 2% of GDP in 2012 and to 4 percent of GDP in 2013, the government said.

"*With the Széll Kálmán Plan 2.0, the government will finalize the switch to such a tax system that creates the resources for a reduction in taxes on labour with an increase in tax on consumption and* *turnover*," it said. "*This is a small burden for the individual, but a significant item in light of the whole budget,*" it added.

The government said the new tax measures are of a structural nature and would establish stability on the revenue side of the budget in the long term. The government confirmed it would halve the bank levy and phase out sectoral "crisis taxes" in 2013.

The Hungarian government hopes that those achievements would accelerate negotiations with the EU/IMF through Hungary's demonstrating that it is able to create stable fiscal conditions and maintain them by way of structural means.

The plan outlines the introduction of five new taxes:

- a 0.1-percent tax on financial transactions, which is seen raising HUF 130-228bn (EUR 0.4-0.7bn) from its introduction in 2013;
- a 2 forints-per minute tax on telephone calls and text messages set to raise HUF 30bn in 2012 and HUF 52bn from 2013 (EUR 100mn to EUR 170mn);
- tax measures affecting energy suppliers to 16 percent, which will generate HUF 55bn (EUR183mn) in extra revenue calculating with the withdrawal of the crisis tax on the sector;
- taxes on insurance products that are expected to bring in HUF 15bn (EUR 50mn) of revenue;
- and the introduction of reverse taxation - the practice of obliging the buyer, not the seller, of goods to pay VAT - for grain, oilseed and protein crops in the farm sector, expected to generate HUF 10bn in 2012 and HUF 15bn in 2013 (EUR 33mn to EUR 50mn);.

On the expenditure side, the plan targets HUF 10bn (EUR 33mn) in savings on drug subsidies this year. Almost HUF 45bn (EUR 150mn) in additional savings are seen as well, mainly from spending freezes.

For 2013, the plan targets HUF 40bn forints in savings from another review of the drug subsidy system; public sector savings of almost HUF 45bn (EUR 150bn) already made in 2012 are set to be built into the base for 2013; rationalisation at state-owned companies will save HUF 20bn (EUR 66bn); the replacement of state subsidies with European Union resources at the Research and Technology Innovation Fund will save HUF 25bn (EUR 83mn); and savings of HUF 10bn (EUR 33mn) will come from an equivalent reduction in central budget subsidies for public transport in big cities. Although the government laid down a more realistic outlook for future economic growth, the new Széll Kálmán Plan still consists of 70% tax hikes and no deep structural reforms are envisaged, the analysts observe.

The new Convergence Programme submitted to EC

The Szell Kálmán Plan 2.0 incorporates the new version of the Convergence Programme which has been submitted to EC during the Prime Minister's visit to Brussels. The budget deficit will be kept at 2.5% of GDP this year and 2.2% next year, allowing the EU's excess deficit procedure to end, and the threatened freeze on cohesion funds to be lifted.

The government has faced up to reality and cut its growth forecast and raised its inflation and unemployment projections in the new plan, *Napi Gazdaság* wrote. Explanatory notes to the plan state that the government's commitment to a growth-friendly budget consolidation policy could be insufficient in an uncertain global environment. The 0.5% GDP growth for this year forecast in the 2012 budget has now been cut to 0.1%.

Convergence plan forecasts (%)

	2011 *	**2012**	**2013**	**2014**
GDP	1.7	0.1	1.6	2.5
Inflation	3.9	5.2	4.2	3.0
Budget balance**	2.0	-2.5	-2.2	-1.9
Gross debt**	80.6	78.4	77.0	73.7
Unemployment	10.9	10.9	10.3	9.5
Wages	3.2	2.4	3.5	4.5

* actual ** as % of GDP

The document forecasts a revival of domestic demand in 2014, in part because household consumption may fall by 1.2% this year, while the unemployment rate will remain unchanged.

The government sees 5.2% inflation this year, close to the 5.3% forecast of the MNB. However, the government's 4.2% forecast for 2013 is well above the 2.9% expected by the central bank. Analysts were of the opinion that the EU and the IMF would probably approve the programme. The report noted that though its implementation involved risks, the plan would most probably be enough to drop the excessive deficit procedure and the EC would withdraw its decision to suspend payment of EUR 495mn in Cohesion Funds to Hungary in 2013.

Budgetary policy

First quarter budget deficit at 89% of annual target

Hungary's public finances, excluding local councils had a cash flow-based deficit of HUF 517.5bn (EUR 1.7bn) in the first three months of 2012 or 89.8% of the target for the full year. The respective annual deficit target is HUF 576.2bn (EUR 1.9bn) under the central budget act.

In March alone, the general government, excluding local councils, had a deficit of HUF 230.9bn (EUR 766mn). The government incorporated larger than planned interest rate expenditures in its projections, and the 2.5% of GDP (that is the EDP deficit target) can be met despite the higher interest expenditure, deputy state secretary **Benő Péter Banai** said. Detailed budget figures show that interest rate expenditures, at HUF 452bn (EUR 1.5bn), reached 42% of the annual target in the first quarter.

Other spending items with large pro-rata overshoots included consumer price subsidies, spending on unemployment benefits and support the extraordinary government expenditures. Interestingly, the HUF 44.6bn (EUR 148mn) spent on other employment-related measures by the National Employment Fund, mainly on a restructured public work programme, was, in contrast, at 18% or under the pro-rata annual target. Adjusted for one-off items — the ministry considers the revenue from the extraordinary bank levy and the sectoral or "crisis taxes" as one-off items — the January-March deficit reached HUF 568.2bn (EUR 1.9bn) or 62% of the adjusted annual target, the ministry said. The extraordinary bank levy and the sectoral or "crisis taxes" are expected to bring in a combined HUF 342bn (€ 1.1bn) for the full year.

Monetary policy

Monetary policy rate kept at 7%

Hungary's central bank kept its key rate on hold at 7% at its last regular meeting. The decision was in line with market expectations. The Monetary Council said in a statement that a "cautious policy stance" was justified by the high volatility of risk perceptions and recent trends in underlying inflation. Perceptions about Hungary must improve before the budget deficit target is secured, adding that a "key challenge" would be public-debt sustainability. For this Hungary must attract capital and improve its long-term growth potential, the statement said. MNB governor **András Simor** said that the bank's experts had not had time to properly study the updated Szell Kálmán Plan which the government released the previous day. But its measures could put upward pressure on inflation next year while causing aggregate demand to contract, he said. The central bank is unlikely to embark on an easing cycle before a deal on a new financing package with the IMF and the EU is secured, London-based emerging markets analysts commented. Inflation pressures will also mean the bank will be cautious about cutting rates rapidly even if a deal is struck, they said.

Employment

Government subsidy for low wages announced

The government launched a bid through which another 450-650,000 low-earners could receive a two or three percent top-up to their salaries, state secretary in charge of employment **Sándor Czomba** told a press conference. The programme uses a budget of HUF 21bn (EUR 71mn), on top of an earlier, HUF 100bn (EUR 338m) scheme, to ensure grants to companies struggling to meet the government's requirement to offer a five-percent pay rise to their staff in 2012. Applicants have 30 days to request funding, and their applications will be processed within another month. He added that 70 percent of the awarded funds would be sent to applicant companies in July, while they would receive the rest in September. The earlier announced subsidies are intended to help employers fulfill a government mandate to raise the wages of low earners who would otherwise take home less because of recently introduced tax changes.

Competitiveness

Wage costs one-third of EU average

Hungary's average hourly wage cost in 2011 was EUR 7.6, one-third of the EU27 average of EUR 23.1, according to Eurostat data. The Hungarian figure was EUR 7.3 in 2009 and 2010, down from EUR 7.9 in 2008. The average in the Euro zone was EUR 27.6 last year. The hourly wage cost was only EUR 3.5 in Bulgaria, EUR 4.2 in Romania, EUR 5.5 in Lithuania and EUR 5.9 in Latvia.

Trade balance in solid surplus

Hungary's export and import volumes increased by 1.1% and 1.4% year on year, respectively in February 2012, the Central Statistics Office (KSH) reported. Both export and import growth has slowed since September 2011 after double-digit increases earlier in 2011.The country's external trade was mainly influenced by the growing exports of some machinery products (power generating machinery and equipment, road vehicles) and the significant decrease in the exports of telecommunications and sound recording and reproducing apparatus. The detailed data contain even fewer revisions than usual therefore the overall picture remains the same: the trade surplus is huge every month but exports have been stagnating for a year now. This year's trend can be influenced by contracting household consumption and lacklustre investment activity from the import side, while exports are to be impacted the most by a contrary effects of the weak European business cycle and Hungary's new vehicle producing capacities.

In January-February 2012, the volumes of intra-EU exports and imports exceeded by 2.3% and 4.6%, respectively the levels recorded in the base months. In extra-EU trade, the volume of exports grew by 6.8%, while imports were slightly below the level of the reference period.

SMEs

SMEs prefer bank loans

Bank loans are the preferred form of financing available to SMEs, as 20% of such companies are planning to obtain bank credit this year, K&H Bank found in a survey. In the event of a lack of capital, about a third of SMEs would take up a bank loan, followed by subsidies and loans from owners. Only 15% of the 700 company executives surveyed consider leasing as a solution.

Business environment

Government and multinationals agree on new consultative body

A new consultative body for consultations between the cabinet and multinational companies is to be formed, prime minister's spokesman **Péter Szijjártó** announced after Prime Minister **Viktor Orbán** addressed the Hungarian European Business Council (HEBC). The HEBC, established in 1998, unites the CEOs of 15 multinational companies operating in Hungary, including Dutch firms Philips and AkzoNobel. Member companies had combined revenues of HUF 3.5tn (EUR 11.6bn) in 2010 and employed 18,000 people in Hungary. Chairman **László Kerekes**, regional director of AkzoNobel, named three factors that would improve the country's competitiveness: a predictable economic environment, a stable forint and a good international reputation.

The American Chamber of Commerce in Hungary also welcomed the government's plans to consult with multinational companies with operations in Hungary. Grouping about 450 companies, AmCham has for long emphasised that multinational companies make a positive contribution to productivity, business and professional skills, innovation and industrial culture, not to speak about the thousands of jobs they created.

Business confidence index decline further

The GKI-Erste combined consumer and business confidence index edged down to -19.3 in April from -19.0 in March, falling after improving for two months. The business confidence index worsened to -9.0 from -8.1 and the consumer confidence index improved to -48.8 from -49.9. Industrial companies' assessment of production and order stock as well as their outlook was unchanged. The sector remained the most optimistic. Construction companies' assessment of output in the previous three months improved, but the construction sector remained pessimistic. Trade companies said order stock was down, but their sales positions improved. Service companies' expectations deteriorated slightly. In terms of employment plans, the number of industrial and service companies that planned to make new hires was down again in April after rising in March.

Consumers' inflationary expectations decreased and fewer feared losing their jobs. The assessment of the outlook of the Hungarian economy was slightly worse in all sectors as well as among consumers than in the previous month. The consumer confidence index improved slightly for the third month in a row, however, households remain pessimistic. People felt their own financial outlook worsened, while their ability to make savings improved from a month earlier.

Legislation

NÁV to require detailed VAT reports

The tax authority NAV will require companies to file detailed VAT reports from next year, similar to the existing detailed VAT reports on EU transactions, according to the new Széll Kálmán Plan. The 240,000 companies with an EU tax identification number already prepare such reports but 1.7 million companies will be required to do so next year. This will make VAT fraud more difficult. The association of Hungarian accountants developed a proposal last year suggesting that all transactions involving VAT payment be declared by developing current accounting software, *Napi Gazdaság* recalls.

Heavier fines for traffic violations

Drivers who violate traffic rules face heftier fines from April 15, as a new law on misdemeanours went into effect. On-site fines imposed on drivers can range from HUF 5,000 to HUF 50,000 (EUR 16.7-167). Drunk drivers could be fined HUF 30,000-35,000 (EUR 100-117) on the spot and HUF 60,000-100,000 (EUR 200-333) if they pay the fine at a later date. National Police also said that crossing double lines, illegal overtaking, violation of priority regulations and use of mobile phones while driving will entail stricter punishments.

Dutch presence in Hungary

Trial container vessel arrives to Budapest from Constanta

The first Dutch self-propellered vessel loaded in the south part of Constanta port arrived to Budapest on the Danube. Its importance consists of the fact that until recently only standard barges have been used to transport containers on the Danube. This is the first time when a self-propellered barge, latest technology is being used to carry containers on the Danube. 3 lays of containers – 96 High Cube and 9 TEU's have been placed on board of the Ganzepoort a Dutch self-proppelered barge, operated under Veka Logistics.

Veka Logistics Constanta is a part of the Dutch well known Veka Group- one of the biggest shipbuilding company in Europe and a logistic provider. The usage of self-propellered container vessels (135 m length and 11,45 m width), even though is a common thing in the developed Northern European Rhine, is a novelty for the Danube inland waterways. This first transport was a trial organised by Veka, which is considering opening a regular container line on the Danube using vessels of this type.

Veka Logistics will start a new railway service line for containers between Rotterdam/Tilburg and Bratislava, following that a new connection, preferably on the Danube will be created from Bratislava/Budapest to Constanta.

Industry

Henkel to build new plant in Győr

Henkel chemical surface treatments producer announced the construction of a new manufacturing plant at Győri Industrial Park in Győr, north-western Hungary. The project involves construction of a production complex and the installation of production machinery. The project is estimated to cost HUF 900m (EUR 3mn), for which the company has received HUF 100m (EUR 340,000) in EU funding. The company will move its current 400 m² manufacturing facilities from Győrzámolyi to the new location at the industrial park. The new facilities will take up 1,500 m². Construction will begin in the coming weeks, and production will be moved to the new complex in the second half of 2012.

Richter opens HUF 25bn Debrecen plant

Pharmaceutical firm Richter opened a new biotechnology plant in Debrecen, completing a HUF 25bn (EUR 83mn) investment. The drug maker will make protein samples from mammal cells for clinical tests at the factory from 2014. The investment, which received HUF 1.4bn (EUR 4.7mn) in state funding, will create 120 jobs, CEO **Erik Bogsch** said at the opening ceremony, attended by Prime Minister **Viktor Orbán**. Richter, which generated revenues of EUR 1bn for the first time last year, employs 5,000 people directly and 10,000 indirectly. It is the only Hungarian company to boast a market network in the US, the EU and CIS countries.

Financial services

Hungarian Development Bank to buy Takarékbank

The state-owned Hungarian Development Bank (MFB) is in talks on acquiring Takarékbank, a bank for the country's savings cooperatives, but seeks to take on the activity of a commercial bank only temporarily, MFB chairman-CEO **László Baranyay** said in an interview with weekly *Heti Válasz*. "*It is not the task of MFB group to replace commercial banks. However, there are situations when we must temporarily step in for commercial banks. We are in talks with Takarékbank's foreign owner and expect a result in the near future*," Baranyay said. He dismissed speculation that Granit Bank and Széchenyi Commercial Bank want to join MFB's circle, but he confirmed that both banks are in direct talks with the government.

Research/Innovation

R&D spending low in Hungary

Spending on research and development as a percentage of GDP has increased in Hungary in recent years but the total spending by companies remains very low, a report by the national innovation office NIH concludes. R&D spending was below 1% of GDP in 2001-08, but grew to 1.2% in 2009 and 2010. This is well below the 2% EU average. The largest challenge in Hungary is the lack of numerous high-tech ventures, the low competitiveness of products and services and the inadequate spending on R&D, as well as too few scientists and patents.

Transport/Logistics

MÁV to scrap hundreds of services

Total 410 train services and 30 bus services will be removed from the daily timetables of state railway companies MÁV and Gysev and state bus company Volán from April 15, the Development Ministry announced. As a result, passenger division MÁV-Start will cover 7.8% fewer kilometres. Most bus routes to be dropped run parallel to existing railways. The ministry expects the cuts to save HUF 8bn (EUR 27mn) annually.

On another note, MÁV will introduce electronic procurement to make tendering processes faster and more transparent when the value is below the level required to announce a public procurement. One-third of all procurements at MÁV, a total of HUF 18-20bn (EUR 60-66mn) by value, fall into that category, said services director **Zoltán Werle**. MÁV has cut public procurement costs by HUF 1.8bn (EUR 6mn) in the last two years.

New riverboat service promised

Consortium Duna-Express plans to introduce passenger boat traffic on the Danube to link Budapest with outlying towns and suburbs in 2014. A total of 28 river ports are planned to be used, 11 of which will be in Budapest. New ports will be opened at Batthyány tér, Fővám tér and at bridges on the M0 ring road. The service will use catamarans designed, built and operated by a Hungarian company.

Energy

MOL is leaving Nabucco

MOL is leaving the Nabucco gas pipeline project, Prime Minister **Viktor Orbán** said in Brussels. The international project is in trouble, while the Russians are much more active in building the rival South Stream gas pipeline, and it is in Hungary's interest that South Stream should not bypass Hungary, he said. Orbán met with Gazprom CEO **Aleksei Miller** in Budapest very recently, and said afterwards that the South Stream pipeline meets the interests of the entire European region.

Interestingly, MOL did not confirm or deny the news, but said several factors of uncertainty have arisen regarding the Nabucco project, which it would be difficult to ignore. Both the funding and the source of gas are uncertain while the implementation costs of the project have been continuously rising since 2003 and the final sum is still unknown, the energy company said. Nabucco Gas Pipeline International issued a statement declaring that the project is proceeding successfully, noting that the project support agreement was signed by all transit countries including Hungary last year, establishing the final legal frameworks. MOL's wholly owned gas transport subsidiary FGSZ is the Hungarian shareholder of Nabucco and Nabucco has not received any signals that this will change, the statement said.

There is nothing new in Prime Minister **Viktor Orbán**'s announcement that MOL will withdraw from the Nabucco gas pipeline project a US State Department official commented. Special envoy for Eurasian energy matters **Richard Morningstar** said at a conference at John Hopkins University in that it has been clear for some time that this pipeline will not be the first to be built among those planned from the East to Europe.

Pannon Ethanol starts in Dunaföldvár

Pannon Ethanol started production at its new facility in Dunaföldvár, Tolna county, the largest bioethanol factory in Hungary. Plans call for the subsidiary of Irish investor Ethanol Renewables to produce 240 million litres of bioethanol annually. The factory will also produce 175,000 tons of fodder and process 575,000 tons of corn each year. The EUR 120mn greenfield operation on 9.5 hectares was completed over 21 months. The factory creates 78 jobs and will pay about HUF 300-400mn (EUR 1-1.3mn) in local taxes annually. Hungary's first only other bioethanol factory is the Hungrana unit in Szabadegyháza, Fejér county, owned by Agrana from Austria, Tate & Lyle from the UK and ADM from the US.

E-ON opens electric highway to Vienna

E-ON added three electric vehicle charging stations to its Hungary network, creating an "e-highway" linking Budapest and Vienna, the German-owned energy company announced. The stations can be used to recharge electric cars, motorcycles, scooters and plug-in hybrids. All three are located along the M1 motorway, at the Old Lake Golf Centre in Tata, in central Győr and at the Hotel Corvina in Mosonmagyaróvár. The charging station in Budapest, which opened last year, is located at the parking garage on Jókai utca near Nyugati train station.

Telecommunication

Court rules in favour of new state mobile operator

The Capital Court affirmed a decision by telecoms authority NMHH to award a fourth mobile license to state-owned MPVI, *Napi Gazdaság* reports. Vodafone, Telenor and T-Mobile challenged the NMHH ruling, in effect asking the Court to suspend the start of the new mobile operator, the newspaper adds. They cited legal errors in the tender documents and in the NMHH decision to award the frequency to the consortium of electricity company MVM, Magyar Posta and venture capital firm MFB Invest, all state-owned entities.

Retail

Tesco retains top spot in sales

Tesco remained Hungary's largest retailer in revenue terms in 2011, with HUF 705bn (EUR 2.4bn), ahead of CBA at HUF 565bn (EUR 1.9bn) and Coop with HUF 510bn (EUR 1.7bn), according to market researcher Nielsen. The top 15 retailers generated HUF 3.7tr (EUR 12.3bn) in revenues last year, HUF 100bn (EUR 333mn) more than in 2010. The expansion of new store openings slowed last year. Discount chain Lidl opened 13 new shops, followed by Tesco, which added seven outlets to its network and Aldi, with five new units. Auchan will complete the takeover of Cora hypermarket units in a few months and will keep all seven stores in operation.

Environment

City-owned company to dominate waste collection market

Public area maintenance company FKF could become the dominant player in selective waste collection in Budapest in a few years, wiping out competition from smaller firms, after the city council has been awarded HUF 4.3bn (EUR 14.3mn) in EU funds, Index reported.

Recycle Hungary, a smaller company on the market, announced that it would cease operations as of April 10, citing rising fuel prices and changes in recycling subsidies. In addition, newly formed state recycling agency OHÜ has declined to engage in talks and sign a contract with the company on waste collection, managing director David McCall noted in a statement.

FKF told Index that the FKF cannot entrust selective waste collection to "*shaky private companies*". City-owned FKF has started selective waste collection in Budapest's Fifth, Seventh, 11th and 13th districts, and aims to expand its activities to cover all of Budapest and its surroundings in two years.

Agriculture

Fight against the "pocket contracts" promised

The signing of "pocket contracts" – illegal agreements to circumvent the ban on the sale of land to foreigners – will be classified as a crime, Regional Development Ministry state secretary **Gyula Budai** said in an interview with *Magyar Hírlap*. Most such contracts have been signed in western Hungary over the past 20 years, often disguised as rental agreements. According to plans a six-month transition period would be provided for those who concluded pocket contracts to admit to them, during which time they would be exempted from any consequences, Budai said. However once that six-month period expires, those involved – including lawyers and notaries – can expect serious punishment, he warned. Budai promised draconian rigour and no mercy, vowing to retrieve a considerable part of the illegally obtained areas of land. He stressed that legislation will have to be enacted which does not run counter to EU law but which ensures that no Hungarian land is owned by foreigners.

Food industry

Gyermelyi milling investment

Prime Minister **Viktor Orbán** and executives of Gyermelyi laid the foundation stone of a new mill at the milling company's production centre in Gyermelyi, Komárom-Esztergom county. Construction of the mill will be completed by the end of the year following a HUF 2bn (EUR 6.6mn) investment, boosting milling capacity from 100,000 tons to 150,000-160,000 annually. Gyermelyi plans HUF 1.5bn (EUR 5mn) of additional investments this year, to build a new packaging and storage facility and to replace combine harvesters.

Tourism

Adventure parks pip industrial parks as hot Hungarian investment market

A boom in western-style adventure parks has been prevalent over the past ten years with over 30 such facilities built across the country during the period, business daily *Napi Gazdaság* said.

Several investors, such as tourism firms on their own, or in partnership with local governments or local businesses, have chosen to build new adventure parks as there is an up to 50 percent EU funding option for these projects, and investment can turn profitable in 5 to 8 years, the paper said. A new 3-hectare park is to open this summer next to the spa and wellness complex at Sárvár near the Austrian border, another park is under construction at Zalakaros also in the west and a third one at Soltvadkert in southern Hungary.

Events

Renexpo

6th International Energy Trade Fair

Date: 10-12 May

More information: http://renexpo-budapest.com/index.php?id=7&L=1

IndustriAutomation

International Industrial and Automation Trade Exhibition

Date: 15-18 May

More information: http://www.industriautomation.hu/?nyelv=1