Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

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In memoriam
Ambassador Robert Milders
(1948-2012)

On Sunday, August 19th, last, Ambassador Robert Milders totally unexpectedly passed away in his sleep in The Hague in the age of 64. Ambassador Milders was widely considered as a committed diplomat who performed his duties with great enthusiasm. He enjoyed his work and the many professional and personal Hungarian, Dutch and international contacts, many of whom became his friends. Through his own working method, a combination of openness, directness and a sense of humor, he had the unique capability of connecting people and to enthuse them.

As of 1976, Ambassador Milders was employed at the Ministry of Foreign Affairs. After his diplomatic class, he was posted in Dhaka, Bonn, Geneva, Brussels, Tokyo and at various departmental positions in The Hague. Since 2009, Ambassador Milders was the Dutch Ambassador in Budapest.

Our thoughts are with his wife Ellen and their children Emilie, Julia, Frederick and their partners.

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

EU relations

Győri outlines Hungarian priorities for the MFF-talks
The EU Multi-Annual Financial Framework for 2014-20 should focus on boosting employment, enhancing competitiveness and on convergence, Foreign Ministry State Secretary **Enikő Győri** said after attending a conference in Nicosia. Győri welcomed as a major step forward from Hungary's point of view the Commission's proposal that EU Cohesion Funds be concentrated on the poorest countries. Győri reiterated the Hungarian criticism on the plan to cap development funds granted to a country to 2.5% of its GDP, as Hungary would lose a very significant amount of funds.
Under a capping regime, Hungary would stand to lose nearly 30% of its projected Cohesion Funds under unchanged conditions. Győri stressed that Hungary wants to preserve the EU's Common Agricultural Policy, saying "healthy and sufficient food is needed in the EU, and it should provide funds for that".

ÁSZ finds serious drawbacks at rural development programmes
Only 20% of the EU funds available for 2007-13 under the New Hungary Rural Development Programme have been paid out so far, the State Audit Office (ÁSZ) reports. Hungary had obtained 60% of the HUF 270bn (EUR 0.9bn) available by the end of 2011, according to the findings. As a result of the inefficiency, GDP in rural areas eligible for funding did not rise, unemployment did not drop and there was no change in employment rates, the ÁSZ noted. The auditors have asked the Rural Development Minister to review the mechanism of the subsidy scheme and speed up pay-outs. The ÁSZ would like to see its findings incorporated into the planning of the next EU MFF-period for 2014-20.

Macroeconomy

GDP dives 1.2% in Q2
GDP decreased 1.2% year-on-year, according to the Central Statistics Office. GDP dropped by 0.2% from the first to the second quarter. About half of the economic branches stagnated, GDP in agriculture and the construction sector contracted, whereas the info-communication branch showed growth in Q2. The Hungarian economy is in recession in technical terms, as its GDP has fallen in two consecutive quarters. Moreover, there is stagflation, where high inflation is paired with recession, *Népszabadság* points out. "*Hungary could not escape international trends also in the second quarter,*" the Economy Ministry commented. "*It is simply not true that the Hungarian figures fit into the EU trend. The performance of the EU is weak but such a drop as in Hungary is not experienced elsewhere,*" former head of the Central Statistics Office **Tamás Mellár** said, adding that a new economic policy is needed. The recession will stay until the end of this year, economic research institute GKI wrote in its latest forecast. Exports have grown little despite the new Mercedes factory, while domestic demand remains weak. Contrary to its official communications, actual steps of the Orbán government do not point towards reaching an agreement with the IMF and the EU.

Investments dramatically low
Investment volume in Hungary fell 5.9% year-on-year in the second quarter, the Central Statistics Office reported. Investment volume fell 2.2% quarter-on-quarter. On annual basis the Q2 investment volume fell 5% in the manufacturing sector and was down 4.7% in the construction sector. Machinery and equipment investments fell 2.6%. Energy industry investments were almost halved as a power plant project wound up and network expansions slowed. The completion of a hotel renovation caused investment volume in the hotel and catering sector to drop about one-third. Investments in the info-communications sector jumped 70% on network expansions related to a frequency tender.

Economic policy

Wekerle Plan announced
Hungary's government unveiled a plan that aims to boost economic growth by reinforcing the place of domestic companies, especially SMEs, in the Carpathian Basin. "*The main strategic goal of the Wekerle Plan is to strengthen the position of domestic businesses in the Carpathian Basin,*" according to the document published on the government's website.

The plan aims to achieve this goal by harmonising infrastructure in the region and creating a unified labour market. "These are general aims that can be implemented in large part with the cooperation of the region's states," according to the document. "*The Hungarian government views ethnic Hungarian communities living in neighbouring countries as a strategic alliance in achieving goals at the level of the Carpathian Basin,*" the document's authors added. The plan focuses on five areas of the region's economy that can serve as breakthrough points: co-operation among vehicle and machinery industry suppliers, the green economy, the food industry, the tourism and health industry, and the creative industry and info-communications sector.

Budgetary policy

Government to increase fiscal control
The government is gradually expanding budget supervision, which is now primarily focusing on higher education, health care and culture, the Ministry of National Economy announced. A government decree was published in the Hungarian Bulletin stating that the government has appointed a chief budget supervisor to oversee several colleges and universities. This is the fourth decree by the government which decided on the appointment of budget supervisors. The announcement also said that the supervisory system will improve transparency, lawful use of public funds, and it will also establish the conditions for a permanently balanced management of assets.

Budget Council gets feasibility study from the Economic Ministry
The Ministry of National Economy has transferred feasibility studies and additional information to the Budgetary Council concerning amendments made to the 2013 budget in July. The Council requested more information on July 16 regarding the financial transaction tax, the small company tax and the simplified company tax, as well as on changes in the social contributions and planned improvements in tax collection. Initially the Budgetary Council had been concerned about soundness of background calculations on which the 2013 Budget is based.

Monetary policy

MNB surprises with rate cut
The Central Bank (MNB) lowered the base rate from 7% to 6.75% at its last rate setting meeting in August, carrying out its first rate cut since the spring of 2010. The Monetary Council voted for the lower rate with a "slight majority," MNB governor **András Simor** told the subsequent press conference.

A monetary council statement said, in part "*monetary policy can only be eased to the extent that supply shocks to the economy and the upward impact on prices of the government's measures do not lead to the build-up of second-round inflationary effects and perceptions about the Hungarian economy continue to improve*". Some analysts opinion that the cautious rate cut can be justified because the currency and bond market situation and Hungary's Credit Default Swap premiums are better now than last autumn, when the MNB twice raised the rate by 50 basis points.

However, other analysts argue that easing but still present stability risks and the risk of accelerating inflation would justify postponing the rate cut. The situation can easily turn bad if the risk tolerance of investors drops as US growth falters. London-based analysts with Capital Economics suggested that the MNB is testing market reactions with its move. Forint started losing ground after the rate cut.

Inflation 5.8% year-on-year in July
Inflation in Hungary accelerated to 5.8% year-on-year in July, from 5.6% in June, the Central Statistics Office announced. Analysts forecast 5.4-5.6%, *Napi Gazdaság* observes. Core inflation stood at 5.1% year-on-year in July and pensioners' inflation was 5.8%. Inflation without tax changes reached only 3.5%. The EU harmonised inflation was 5.7% in July. The surprise was caused by a higher than forecast increase in food prices, as seasonal food prices dropped less than usual. Exploding wheat and corn prices [as a result of the drought] may keep the food price increase above earlier forecasts, thus despite the strengthening HUF and weak domestic demand, inflation will be higher than expected.

Employment

Unemployment at 10.5%
According to Central Statistics Office (KSH) data, the number of unemployed in Hungary decreased from 472,000 in April-June to 459,000 in the May-July period, which is the lowest figure recorded since the end of 2010. The unemployment rate retreated to 10.5% from 10.9%. In the 15-74 age group, the number of employed rose to over 3.908 million, according to data which has been unprecedented since the onset of the economic crisis in the autumn of 2008.

Competitiveness

"Third wave" of liquidations under way
The number of company liquidations reached 2,251 in June, company information service Opten reported. In H1 2012, 18,200 companies closed down, a record high level, up from 11,300 a year earlier, according to website called feketelista.hu (blacklist). This means that in H1 2012, 2.9% of all companies closed down. The number of

new companies registered was 13,100, down from 25,400 one year earlier. The number of companies stood at 640,300 on June 30, 2012.

This third wave of liquidations, following those of 2008 and 2011, is mostly due to the activities of authorities, Opten observed. Starting this year, the tax authority is closing down companies which cannot be reached at their official address, or have no CEO, or which failed to file an annual report, and the fee for company registration has been increased.

Business environment

M&A fell in number
The number of company mergers and acquisitions fell in the first half to 38 from 69 one year earlier, a survey by Ernst & Young found. The total value of such activity shrank by 75.3% from USD 1.4bn to USD 400mn. No transaction over USD 100mn was signed in the first half. The average value of a transaction was USD 9.5mn, up from USD 9mn one year earlier. The most popular investment targets were in telecoms and media.

Civil Code might reduce transparency
Three prominent NGOs have asked **Attila Péterfalvi**, head of the National Data Protection and Freedom of Information Authority (NAIH), to ensure that the new Civil Code defines a business secret in a way that enhances transparency in the use of public funds. The Civil Liberties Union, Transparency International Magyarország and public money watchdog K-Monitor fear that state and local government institutions will reject future requests for data on public spending by simply referring to “business secrets”. Péterfalvi said the NAIH is monitoring the progress of regulations concerning the transparency of public money. The NAIH is confident that coherent regulations that maintain transparency will be drawn up before the new Civil Code enters into force.

Legislation

Changes in the Act on the Rules of Taxation
From 1 January 2013, the consideration of supplies of goods and services based on the same contract between taxpayers obliged to open current accounts may be settled in cash up to the total amount of HUF 5mn (EUR 17.500) monthly.

If it can be determined without doubt that a contract was broken down into several contracts in violation of the principle of exercising rights in accordance with their intended purpose in order to evade the above obligation, the contracts in question shall be regarded as one contract. A default penalty of 20% of the amount paid in cash in excess of the HUF 5mn limit may be imposed for the violation of this regulation. As to the Value Added Tax, from 31 July 2012, the favourable 18% VAT will apply instead of the current 27% rate to the services of providing only entrance to the occasional open-air events defined in the Government Decree on the Improvement of the Security of Music and Dancing events.

New royalty rules for non-miners
New regulations were launched concerning royalties for mined “by-products” for non-mining companies, the national asset managing company MNV announced. The new regulations cover handling mining “by-products” such as sand and pebbles from constructions, river bank deepening and surface alterations, and affects a broad range of companies. MNV has published the new rules on its website.

Dutch presence in Hungary

Imtech N.V. won 2 new orders in Hungary with a total value of EUR 27mn
Clients include car manufacturer Audi and producer of veterinary vaccines Ceva. End of May 2011, Imtech already acquired the activities of YIT in Hungary, which created a structural basis for building up a strong market position in this country. The new orders represent therefore a strong start for Imtech in Hungary. Imtech Hungary is being managed by Imtech Germany. The combination of local presence and technological knowledge out of Germany means that Imtech in Hungary can grow rapidly. Audi is expanding its existing engine factory in Győr with a production facility to produce new vehicles in Hungary. For this extension Imtech will provide the complete technical infrastructure, consisting amongst others of all technical facilities for heat and media distribution purposes. Imtech will simultaneously improve the energy efficiency of the Audi plant significantly. The new technical infrastructure will be integrated with the production facility in such a way that energy consumption will be kept on lowest level. The project will be finished this year.

Imtech will act as a technology partner for the entire technical infrastructure in an expansion of the production capacity of veterinary vaccines for Ceva-Phylaxia in Budapest. The contract includes all electrical and mechanical facilities and process technology.

Industry

Samsonite completes expansion
Samsonite Hungária announced that it has completed its HUF 778mn (EUR2.7mn.) capacity expansion project, which received a HUF 194mn (EUR 0.6mn) subsidy under the New Széchenyi Plan. The technology for a new polypropylene "Curve" was established in the factory in Szekszárd. The factory employs 360-380 workers. It produced 650,000 travel bags in 2011 and targets the same number this year. Revenues totalled HUF 11bn (EUR 28mn) in 2011 and will rise to HUF 11-12bn (EUR 28-31mn) this year.

Automotive

New investments in automotive supplies
Cylinder head manufacturer Nemak has invested EUR 30mn (HUF 8.5bn) in Győr to expand annual capacity from 500,000 to 2.5 mn units. The subsidiary is Mexican group Nemak's largest cylinder head manufacturer in Europe, supplying parts to Opel, Renault, Audi and BMW. An other investor, Rehau Automotive is also building a factory in Győr to supply bumpers to Audi. The EUR 60mn (HUF 17bn) project enjoys a HUF 985mn (EUR 3.3mn) subsidy. Building a 26,000m^2 factory on a 10 hectare site will be the first phase of the project. Production will probably start in the second quarter of 2013 creating some 200 jobs. At full capacity an annual 500,000 bumpers both front and rear will be produced.

Last but not least German car parts manufacturer Kirchhoff announced plans to invest HUF 2.7bn (EUR 94mn) in expanding its capacity in Hungary. The project, to be completed in 2014, will add 150 jobs to the present 350 at the factory in Esztergom. The job creation receives HUF 716mn (EUR 2.5mn) in European subsidies. Kirchhoff has obtained orders from seven car makers for 2011-15. Kirchhoff supplies not only Suzuki but also General Motors, the new Mercedes plant in Kecskemét, as well as car makers in Slovakia and the Czech Republic. After having posted revenues of EUR 27mn in 2011 Kirchhoff is aiming for EUR 50mn this year and EUR 100mn by the end of 2014.

Construction/Infrastructure

New concept for stadium chosen
The architectural firm of Pomsár & Partners has won the initial tender to prepare guideline plans for the reconstruction of the area around the Puskás Stadium in Budapest's 14th District of Budapest, public procurement gazette *Közbeszerzési Értesítő* reveals. The reconstruction will be carried out in several phases between 2012 and 2020. In the first phase a modern football stadium will be built separately from facilities for athletic competitions.

Pomsár was awarded HUF 3.5mn for its efforts. Rival bidder Mérték Építészeti Stúdió came second, followed by Sagra Építész.

Services

Collier International on current office market
The Hungarian office of Colliers International launched its latest office market report. "*The office market was stable in H1 2012, total office stock, take-up volumes and rents have not changed much from 2011, while the vacancy rate showed a slight increase.*" – said **Tim Hulzebos**, managing director at Colliers International Hungary. The total modern office stock marginally increased in H1 2012, with only one registered new completion during this time. There were no new starts in H1 2012, although there are a few projects in the pipeline that are expected to be completed near the end of 2012 or in early 2013, while others will come to market in 2014. Concerning the demand, office take-up totaled 149,000 m² in H1 2012; a lower figure than take-up numbers for the same period in 2011. New take-up and renewals accounted for 85% of all activity, while expansions totaled almost 16,000 m², more than 10% of all office activity. Renegotiations remained the dominant take-up activity. Large tenants who leased more than 5,000 m² of space preferred to stay in the same location under more favourable conditions rather than moving offices.

Financial services

Insurances report poor results
Hungarian insurers' revenue from premiums fell more than 4% to less than HUF 414bn (EUR 1.4bn) in the H1 2012 from the same period a year earlier, the Hungarian Insurers Association (MABISZ) told MTI. Revenue from premiums on general insurance policies fell 1.1% to HUF 204.5bn (EUR 715mn). Revenue from life insurance premiums dropped 7.4% to HUF 208.8bn (EUR 716mn). Revenue from premiums on unit-linked products fell by about 12% to HUF 136.2bn (EUR 488mn). Policies with single premium payments generated revenue of HUF 76.6bn, (EUR 268mn) down 14%.

Banks incurred huge losses in Q2
Banks and other financial ventures racked up substantial losses in the second quarter, although they did not face write-offs from early loan repayments, as in the first quarter. Banks' combined losses reached HUF 31.6bn (EUR 108mn) between April and June, compared with a profit of HUF 79.4bn (EUR 277mn) in the same period of last year. Banks continued to raise provisions to keep pace with the growth in bad loans, which rose to 13.7% by the end of June from 10.1% one year earlier. Financial ventures closed the second quarter with total losses of HUF 8.8bn (EUR 30mn), up from HUF 6.9bn (EUR 24mn) in the same period of 2011. Insurance companies saw their profits halved from the first quarter to HUF 5bn, a decline from HUF 7.4bn (EUR 25mn) in the second quarter of 2011. Credit co-operatives saw their profits rise, from HUF 1.2bn (EUR 4.2mn) a year earlier to HUF 2.5bn (EUR 8.7mn) in the second quarter.

Research/Innovation

EU laser project behind schedule
The cabinet will review the progress towards setting up the Extreme Light Infrastructure (ELI) laser project in Szeged, a major EU undertaking, the government announced. Urgent measures are needed, the spokesman's office said, as the research centre has extraordinary significance. Work on the HUF 60bn (EUR 210mn) project has been delayed, reportedly because contract awards have been challenged, and documents for the EU subsidies have not been submitted. The EU laser project will be established in Prague and Bucharest, as well as Szeged, under unified management. The National Development Government Commission said not everything has been done in the past two years to ensure that the project proceed at an appropriate pace.

Telecommunication

Government buying digital radio operator from Magyar Telekom
Magyar Telekom has agreed to sell its 100% stake in digital radio network operator Pro-M to state-owned National Infocommunications (NISZ) for HUF 19.9bn (EUR 66mn), it was announced. Magyar Telekom and its mobile-phone division founded Pro-M in 2005 to build and operate a national Unified Digital Radio Network system for use by emergency services. The state signed a ten-year contract with the company in 2005, with the option of taking ownership after 2015. Pro-M will be integrated into NISZ, which operates IT and telecoms infrastructure, and provides and develops IT services for government bodies. NISZ also operates the electronic gateway Ügyfélkapu, the state website that allows citizens to handle state administrative matters online.

UPC launches mobile services
UPC is launching mobile internet services now as the first step in its entry to Hungary's mobile phone market, Hungary CEO **Betzalel Kenigsztein** announced. UPC will utilise the Vodafone network. UPC clients may subscribe for the service for a monthly HUF 1,500-1,600. UPC offers 1GB, 3GB and 6GB packages with 7.2 Mbps speed. Business clients are offered 4GB and 8GB packages with 21.1 Mbps. UPC might also enter the mobile voice market but is planning its steps "carefully".

Transport

New air traffic control centre completed
State air traffic manager HungaroControl opened its new air traffic control centre at Budapest's international airport. The EUR 46mn project was completed just ahead of the September deadline. The EU provided EUR 6mn in funding, while the company financed the remaining EUR 40mn from its own resources. The new, 9,640m^2 home of Hungary's air traffic control, equipped with the latest technology, was completed in 17 months by the Swietelsky-Közgép consortium. Air traffic controllers will not move in to the new facility until February, following the installation of equipment and software. Test runs will be carried out continuously in the new headquarters. HungaroControl had revenues of HUF 28bn (EUR 98mn) last year.

New destinations in airline schedules
The Irish low-cost airline Ryanair announced about its winter schedule that from 12 November a new destination will be added, namely Frankfurt-Hahn. Moreover it will raise the number of weekly flights to Eindhoven to 7 from 4 and it will fly 21 times to London instead of 14 as of 12 November.

Budapest Airport has highlighted plans by Switzerland-based SkyWork Airlines to increase the frequency of flights from Bern to Budapest from two to three times a week. Focusing on both business and leisure travellers, the company launched the first flight on this particular route almost a year ago, apparently with success. Other Swiss destinations with direct flights to Budapest include Zurich and Geneva.

Last but not least Ural Airlines announced that it will start flying between Budapest and Yekaterinburg on October 3, the website airportal.hu has learnt. The airline will operate Airbus A320 planes. The flight will also have business class.

Energy

Nabucco gets construction permits
The Hungarian section of the Nabucco gas pipeline project was granted the last environmental permit required mid-August. The permit was granted after a preliminary environmental impact assessment (PEIA) and a detailed environmental impact assessment submitted by Nabucco to the relevant Hungarian authorities, i.e. inspectorates for environmental protection, nature conservation and water affairs (IENWs). *"The next steps in Hungary are now to finalise the front end engineering and design for Nabucco West and to continue the process of obtaining the necessary permits for construction"*, explained Gabor Bercsi, Managing Director of the Nabucco National Company in Hungary. The Nabucco pipeline will transport gas from the vicinity of the Turkish-Bulgarian border through Bulgaria, Romania, Hungary and Austria, ending near the Central European Gas Hub at Baumgarten. The Hungarian section of the route is 384 km long.

In a separate event, the Ministry of National Development dismissed a report that, contrary to original plans, the planned Russian-backed South Stream gas pipeline would bypass Hungary, business daily *Napi Gazdasag* said. Earlier, a Croatian paper wrote that the pipeline would be built on its territory and would bring gas through Slovenia to Italy. Citing unnamed sources in the ministry, *Napi Gazdasag* said Hungary was preparing its part of the plans for the South Stream at the appropriate pace so that a final investment decision could be made by the end of this year. The exact route of the pipeline has not yet been fixed, and the main investor, Gazprom, is looking at several route possibilities, the paper said. MVM completed the purchase of a 50% stake in Déli Áramlat, the Hungarian company making the preparations for the South Stream pipeline, from state development bank MFB. The remaining 50% is owned by Russian energy giant Gazprom.

Navracsics confirms E.ON buyout plan
The government's goal of buying the Hungarian gas operations of Germany energy company E.ON is part of a plan to make public utility services a non-profit activity, deputy Prime Minister **Tibor Navracsics** confirmed on Hír TV. He said negotiations are under way but that he could not give any further details.

"*We have bought back the MOL shares from the Russians, bought back some water companies ... from the French, we will buy back E.ON from the Germans momentarily*," Orban was previously quoted as saying. Actually Orbán told a conference for Hungarian ambassadors that he anticipates a major dispute with the EU as the government wants to transform public utility services into a non-profit activity. A purchase of E.ON's Hungarian gas operations would cost over EUR 1bn, which would probably be covered by the cabinet from unused reserves from the previous IMF loan, *Népszabadság* theorises.

It was from those reserves that the cabinet bought back the 21% stake in MOL from Russia's Gazprom, the newspaper adds. It is conceivable, according to unidentified sources quoted by *Népszabadság*, that the cabinet will also buy MOL's gas division as well as E.ON's, and merge both into the state electricity works MVM.

Electricity exchanges connected
The electricity exchanges of Hungary, the Czech Republic and Slovakia were connected in August, in what is so far a pilot project. If tests are successful then a decision will be made on the final date of linking the HUPX, OTE and OKTE exchanges. The EU is aiming to unify its electricity market by the end of 2014. As the joint Czech-Slovak-Hungarian electricity market starts in September, prices will be better correlated with West European prices, the Hungarian electricity exchange HUPX announced. The country risk premium can fall and the futures market will be stronger, it added. There will be no need to purchase border-crossing capacities for these countries. Supply will be more stable and the market more transparent, HUPX concluded.

Retail

Retail sales in Hungary down 1.1% in H1 2012
The volume of retail sales in Hungary in June 2012 decreased by 1.7% on an annual basis, the Central Statistical Office reported. The highest year-on-year decrease was seen in the sales of pharmaceutical medical goods: their volume declined by 11.7% compared to June 2011. The sales volume of furniture and electric goods went down in June 2012 by 10.4% year on year. In the first half of 2012, the volume of retail sales in Hungary was 1.1% lower than in the corresponding period of the prior year. **David Németh**, a macroeconomic analyst at ING, thinks the retail sales in Hungary in will be 1-2% lower this year than in 2011.

Tobacco monopoly gets green light

Neither the European Commission (EC) nor any EU state filed an objection against the Hungarian tobacco trading bill by its deadline. Hungary must next send the final text of the bill to Brussels and the EC may express objections later, daily *Népszabadság* underlines. **János Lázár**, the Fidesz caucus leader at the time, said earlier this year that he hoped the bill could be passed in the autumn and enter into force from January 1, 2013. The bill would make tobacco trading a state monopoly in Hungary, stipulating one tobacco retail kiosk for every 2,000 inhabitants, reducing the number of sales points from 43,000 to 5,000-6,000. British American Tobacco and Philip Morris currently control about two-thirds of Hungary's tobacco retail trade, paying fees to retailers to display their advertisements but leaving only a small margin on sales. This could change radically, as the new regulation would ban this practice, *Népszabadság* writes.

Environment/Water

MPs to discuss Danube water supply

A petition to have Parliament consider the question of water supply in the Szigetköz area of northwest Hungary has succeeded, as the National Election Commission verified the 71,000 signatures collected, nearly 50% more than required. Parliament is expected to put the question on its agenda and discuss it in the autumn. Those behind the initiative want to make sure that waters of tributary rivers can again flow into the main body of the Danube. This would require an estimated HUF 5bn (EUR 17mn) investment in Győr and a further HUF 10bn (EUR 34mn) in the northwest Hungary region. The Öreg-Duna (Old Danube) bed in the Szigetköz area has sunk two metres in the past 50 years – partly because of hydropower plants built in Austria – cutting off the tributaries in the Szigetköz and Csallóköz areas from the main branch of the river.

EU warns Hungary on waste collection

The European Commission has warned Hungary that it may launch new infringement proceedings over legislation that gives state companies a preferential position in the waste collection sector. The Commission objects that non-state companies in the sector will be expelled from the market without indemnification when waste management is transferred to the state from 2013. The government has a September 27 deadline to reply in order to avoid new infringement proceedings. *Népszabadság* obtained the EC's original letter, in which the EU executive is asking the government to send a detailed explanation to the amendment of the waste management law; the reasons why it would implement market restricting measures; a list of the companies affected; environmental, legal and economic impact studies that substantiate the decision and detailed calculations regarding the grounds on which the private businesses will be indemnified for being driven out of the market. The paper learned that after receiving the letter dated 19 July the government expects a "full-scale" offensive by Brussels related to the newest plans to nationalise public utilities.

Danish firm to study congestion fee

The Budapest Transport Centre has signed a HUF 37.9mn (EUR 133mn) contract with COWI Magyarország for counting traffic, analysing data and modelling the effects of a congestion fee. The Danish planning firm will have to interview drivers at 22 busy points of Budapest to gauge traffic in 38 intersections. They will also calculate the number of passengers on all trams and metro cars and on two busy HÉV lines.

Agriculture

Wheat harvest completed

Autumn wheat is already in storage, and its quality is good or excellent, Agricultural Ministry state secretary **György Czerván** said. The total area of autumn wheat was 1.081 million hectare, up by 100,000 hectares from last year, but the total quantity of the harvest equals that of last year, thus the average yield dropped to 3.7 tons per hectare. There were 675,000 tons of autumn barley harvested on 177,000 hectares, meaning a 3.8 ton per hectare yield. A total of 327,000 tons of spring barley was harvested on 102,000 hectares, with a yield of 3.2 tons per hectare. While the wheat harvest was good this year, extreme summer drought caused significant damages to corn. Agricultural product councils welcomed the cabinet's promise of an extra HUF 10bn (EUR 33mn) in funding to animal breeders. Rural Development Minister **Sándor Fazekas** announced a string of measures to alleviate losses caused by the on-going drought. The dairy, meat and poultry product councils said the drought has hit animal breeders hardest, as it has forced feed prices upwards.

Cabinet considers pig farming strategy

The Rural Development Ministry has prepared a strategy for pig farming to be discussed by the cabinet, state secretary **Zsolt V. Németh** said. The ministry advocates integration, interest subsidies for working capital loans and a revision of environmental regulations. Pig farming is inefficient, Németh said, as the technology and fodder is outdated. Moreover, there are no optimal size farms, he added. The number of pigs in Hungary has fallen from over 5 million in 2002 to below 3 million.

Food industry

GVH investigating retailers over suspected watermelon price fixing
The competition authority GVH is investigating six retailers and two lobby groups on suspicion of fixing the price of watermelons, to keep them artificially high, the competition watchdog announced. The GVH claims that retailers Aldi, Auchan, CBA, Lidl, Spar and Tesco, along with the Watermelon Association and the vegetable and fruit product council FruitVeB have colluded on the retail price of Hungarian watermelons since the middle of July. Interestingly enough the alleged wrongdoing occurred in the context of a government-sponsored agreement to keep watermelon prices at a level high enough to support farmers. Rural Development Ministry state secretary **Gyula Budai** rejected allegations that the pact amounted to a cartel agreement. He said hypermarket chains were asked not to import watermelons and to sell the fruit at prices similar to last year, and that a similar campaign to promote Hungarian apples would be launched in the Autumn.

Nestlé continues expansion
At the topping-out ceremony for the expansion of Nestlé's pet food plant in Bük (West Hungary) its European regional director **Laurent Freixe** said the HUF 13bn (EUR 45.6mn) investment will create 150 new jobs and the company began expanding its plant based near Kőszeg (West Hungary) in 2011, which has become one of Europe's biggest pet food plants, covering an area of 55,000sqm. Nestlé has invested more than HUF 30bn (EUR 105mn) in Hungary over the past five years, and employs 1,750 workers in the country as a result. PM **Orbán,** who was present at the ceremony, said that the Hungarian government welcomes multinational companies striving for long-term partnership and job-creation.

Margarine and nutrition products tax
The government will increase the scope of the "fat" or "chips" tax, expanding to new product groups, health care state secretary **Miklós Szócska** told Hír TV. Margarine, nutrition products and other components are also to be taxed. Additional revenues from this tax and from the higher excise tax will be used to increase the wages of health care workers Szócska said.

Tourism

Tourism centres get HUF 46.7bn
The National Development Steering Committee (NFK) allocated HUF 46.7bn (EUR 165mn) on development projects for 34 centres of tourism. The main criterion for selection was to serve less developed regions in Hungary, NFK said. All funds came from the European Regional Development Fund. Among the selected centres of tourism were: the national shrine in Mátraverebély-Szentkút, the Hungarian puszta Hortobágy, the Szeged dome,, the Nagyerdő Park in Debrecen, the aircraft museum in Szolnok, the Festetics Palace in Keszthely, preserved village Hollókő, the Pannonhalma Abby, the Pécs Zoo, the Nagytemplom church in Debrecen, and the Csaba Park Hall in Békéscsaba. The Grassalkovich Palace in Hatvan and sites in Gyula, Ozora and Edelény also got renovation financing. Bicycle roads will be built along the Zagyva river, connecting Lake Tisza to Hortobágy.

Events

CEP Clean Energy & Passive House Expo

Date: 17-18 October 2012

More information: http://www.cep-expo.hu/index.php?id=7&L=0

HOVENTA

31st International Hotel, Catering and Gastro-Tecnological Trade Exhibition

Date: 16-18 October

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

1st Public Procurement Exhibition
Date: 27-09-2012
More information: http://www.kozbeszerzes.hu/nid/Konferenciak