Koninkrijk der Nederlanden

Holland

Pioneers in international business

Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

October 2012

Dear Reader,

It seems that this October was the month of austerity packages. Economic Minister Matolcsy put the first HUF 397bn fiscal adjustment package on the table on 5 October, but as the European Commission deemed the targeted budget impact of the planned measures exaggerated or unfounded, a second package of HUF 367bn was unveiled on October 17. This, the government claims, will be enough to reach the deficit goal next year. The government now targets 2.7% of GDP deficit both for 2012 and 2013, after revising the goals upward from 2.5% and 2.2%, respectively. The main goal of the Hungarian government is to get out of the Excessive Deficit Procedure (EDP), otherwise Hungary would risk losing almost the third of its Cohesion Fund resources. At the same time the potential agreement with the IMF seemed of secondary importance, at least the Hungarian government takes it as a fact that the IMF will not return to Budapest before the start of the next year. It remains to be seen, however, whether the proposed budgetary adjustment will be sufficient to reduce next year deficit under the magic 3% threshold, or additional steps will be required.

As to the main activities of the Embassy, a small seminar in the field of creative industries was organised. The mission of leading Dutch institutes of creative industries (Netherlands Architecture Institute, Architecture Film Festival Rotterdam, Premsela, Waag Society, Design Academy Eindhoven, Stedelijk Museum Amsterdam, RDM Campus), together with colleagues from Dutch embassies in the region spent three days in Budapest. On the margin of the design week they met Hungarian partner organisations, institutes (e.g. MOME, Colabs, Design Terminal) and designers in order to have an insight into Hungarian and regional creative industries and the start-up culture.

As to the upcoming events, The Embassy, in co-operation with Port of Rotterdam, will participate in the Translog Connect Congress and Exhibition which will be held from 28-29 November in Budapest. This event gives an excellent opportunity to meet leaders of the Transport and Supply Chain Management industry. The Embassy has the opportunity to invite a limited number of Dutch companies which are linked to the transport/logistics business to this event and/or exhibit their promotion material at the Embassy stand. Should you be interested in participating, please indicate your company's name and that of the contact person(s) at: bdp-ea@minbuza.nl before November 19. More information on the programme is to be found on: www.translogconnect.eu

Bert van der Lingen	***Martijn Homan***	***Marina Varga***	***Éva Szabó***
Chargé d'affaires a.i.	*Agricultural Counsellor*	*Senior Policy Adviser*	*Trade Promotion Office*

EU relations

Infringement procedure on satellite broadcasting

The European Commission launched infringement proceedings against Hungary because Hungarian authorities made it a pre-condition that any satellite broadcasting company must have a Hungarian office. The EC said Hungary did not adopt the EU directive on licensing procedures into its legal system, adding that the existence of a registered office in Hungary may not be set as a pre-condition for granting a licence, as that violates EU principles on provision of services, as well as EU telecoms regulations. The proceedings, launched on are unrelated to earlier EC concerns about Hungary's media law.

In a separate event The EC also requested information on Hungary's sudden ban on slot machines announced and passed in the first three days of October. European slot machine operators association Euromat took the matter to the Commission. The association argues that the government violated rules on fair competition by preferring casinos over smaller slot machine operators, in order to protect the revenues of the casino concessions.

As to other ongoing procedures, the EC accepted the arguments put forward by the government and closed its preliminary inquiry into whether Hungary's tax on food deemed unhealthy is in line with EU regulations. The government argued that the tax does not favour Hungarian producers, as it is solely based on the ingredients in the products, specifically sugar, salt and caffeine content.

Macroeconomy

EBRD downgrades economic outlook for Hungary

In Hungary the economy contracted by 1.2% over the first half of 2012 "*as the slowdown in export markets added to the continued weaknesses in domestic demand*," the EBRD said in its regional economic outlook. "*Recent trends in industrial production and business confidence point to a further contraction during the remainder of the year, as indicators of household earnings and labour market trends remain weak*" it added. For this year, the EBRD expects 1.5% GDP contraction vs. its previous estimate for -1.3%, whereas next year's prognosis was left on hold at +0.4%. In May 2012, the EBRD still projected a 1.0% recession for 2012 and 0.7% growth for 2013 for Hungary, but cut both of these estimates in July.

The EBRD's forecast is in line with IMF's World Economic Outlook. The IMF has already lowered its projection for Hungary's current-account surplus in 2012 to 2.6% of GDP from 3.3%. But it raised the projection for next year's surplus to 2.7% from 1.2%. In the previous outlook, published in April, the IMF expected Hungary's GDP to stagnate in 2012 and grow 1.8% in 2013.

GKI and Kopint-Tarki paint gloomy picture

The government's aim of freeing Hungary from the EU's excessive deficit procedure is in doubt because of the side effects of the measures applied, economics institute GKI wrote in its latest report. GKI has lowered its GDP growth forecast for 2013 from 0.8% to 0%, due to recently announced austerity measures. Real wages will decline by 1.5% next year, while consumption will shrink by 1%, in GKI's view. The present good terms for financing Hungarian debt are only temporary, GKI argues, as they are a result of monetary easing by large countries and of market hopes for an agreement with the IMF and the EU. Hungary's economic output will have reached 2005 levels by the end of 2012, Éva Palócz, head of economic research group Kopint-Tárki said. The research institute lowered its 2013 growth forecast for Hungary to 0.5% from its earlier projections of 0.7%.

Budgetary policy

Government announces austerity packages one after the other

Speaking after an extraordinary cabinet meeting on October 17, Economic Minister Matolcsy unveiled HUF 367bn (EUR1.3bn) of austerity measures less than two weeks after a similar HUF 397bn (EUR 1.4bn) package to keep the budget deficit below 3% in order to escape punishment under the EU's excess deficit procedure. The government has also cut its 2013 growth forecast from 1.0% to 0.9%. the reason for the second package was that the EC informed the government in a letter received that only two-thirds of the fiscal readjustment programme announced on October 5 could be achieved, and that without further adjustments the deficit would rise to 3.7-3.9% of GDP in 2013.The government will implement the measures to ensure that the excess budget deficit procedure against Hungary is lifted, Matolcsy said, as he criticised the EU's assessment. Specifically, the EU found the government's 2013 revenue target unjustified, in part because it counts on HUF 93bn in additional tax revenue from the monitoring of cash registers by installing computer chips in them, *Napi Gazdaság* writes.

Matolcsy said 90% of the announced austerity measures primarily will hit larger companies. The financial transaction tax will be raised from 0.1% to 0.2%, generating HUF 90bn more from banks and HUF 40bn from the State Treasury. The decision not to halve the bank tax, in violation of an agreement with the Banking Association, is expected to bring in an additional HUF 72bn in 2013. Matolcsy said the tax office will boost VAT revenues by HUF 60bn through stricter enforcement and closer checks of all payments above HUF 2.5mn, compared to the current HUF 10mn minimum. Furthermore the social security contribution on fringe benefits, payable by employers, will be lifted from 10% to 27%, raising the total tax burden on these payments to 34%. Energy and utility companies will pay an additional HUF 30bn in the form of a tax on fixed networks. Companies, especially wholesalers, will have to pay more local business tax in the future, as tax deductions will be cut back too.

Monetary policy

MNB cuts base rate further to 6.25%

The MNB monetary council lowered the base rate for the third consecutive month, from 6.5% to 6.25%, in line with forecasts by analysts. MNB governor András Simor told a press conference that the decision was approved by a “narrow majority,” echoing his words of last month and the one before that. In both cases, minutes revealed that votes for a lower rate came from the four external members appointed by the current government. Simor noted that September’s rise in inflation was due to higher food and fuel prices, on which monetary policy has little effect. The council’s statement said Hungary’s growth potential is lower than before the crisis, due to low fixed capital investment and low employment, Simor pointed out. It is essential that Hungary reach an agreement with the IMF for the sake of the risk premium and budget financing, the council said, adding that a deal would also boost investor confidence.

Employment

Unemployment 10.4% in the third quarter

The unemployment rate was 10.4% in the third quarter, down from 10.7% one year earlier, the Central Statistics Office announced. The rate among those aged 15-24 was 29.4%, up from 26.8% one year earlier. Among the unemployed, 46.9% had been out of work for over a year. The average period of unemployment was 17.3 months. The number of unemployed was 458,000. The number of employed was 3.936 million, an increase of 80,000 from one year earlier. The employment rate of 51.4% is the highest in ten years. The number of employees in the business sector, which includes private as well as state-owned companies employing at least five people, fell 2.4pc in the twelve months to August, dropping for the 9th month in a row, data published by the Central Statistics Office (KSH) show. The number of business sector employees fell by 45,500 from a year earlier to 1,828,000 in August, and was down a slight 2,200 from July. Business sector employment started to decline year-on-year last December after steady year-on-year increase between May 2010 and November 2011.

Minimum wage talks prove futile

The positions of employers and employees did not move closer in talks on the minimum wage at the government Standing Consultation Forum. Labour unions argued for an increase in the minimum wage for 2013 to keep pace with inflation, but employers resisted, citing rising fiscal burdens. If there is no increase in the minimum guaranteed wage, then the government needs to cut the income tax rate from 16% to 12% to guarantee that wages retain their purchasing power, which still would equal only 75% of the subsistence level, unions argued.

The benefits laid down in the job protection plan are partly out of date, Ferenc Dávid, head of employers group VOSZ remarked, adding that in light of the latest fiscal cuts, an increase in the minimum wage is not justified. Ferenc Rolek, vice-president of industrialists and employers federation Mgyosz, said employers first need to be informed of all fiscal measures before deciding on next year's wages.

Competitiveness

Commission assesses competitiveness of the member states

Frequent policy changes are holding back an improvement in the environment for doing business in Hungary, the European Commission said in a competitiveness report in all 27 member states. “While there have been positive developments in some areas, increased competitiveness requires a stable and predictable economic policy framework,” it added. The EC acknowledged a slight increase in labour productivity in Hungary after the crisis, but said cost competitiveness had still deteriorated over the last decade. Credit conditions — especially for SMEs — are tight, the level of innovation is low, there is weak competition in many services, and the effectiveness of public administration is low, the Commission said, outlining challenges facing Hungary’s industrial competitiveness. Further efforts are also needed to reform the public administration system and to reduce administrative burdens, EC pointed out.

Using three indicators (countries with balanced, and unbalanced output, and the emerging group) for comparing industrial competitiveness of the 27 member states, the EC report listed Hungary within the group of emerging countries that face grave challenges. These countries are Bulgaria, Romania, the Czech Republic, Poland, Hungary, Slovakia, Latvia and Lithuania.

SMEs

High demand for micro-credits

The National Development Agency (NFÜ) has closed applications for its combined, partly non-refundable micro-loans in the Central Hungarian region due to high demand, *Népszabadság* writes. More than 2,518 firms have requested HUF 14.5bn in non-refundable grants. NFÜ has approved 1,600 applicants for a total HUF 9.4bn, of which HUF 1.6bn has already been paid out. In the other six regions, over 3,700 companies have applied for HUF 20.2bn in grants, of which HUF 3.3bn has been paid. More than 80% of Hungarian businesses operate without loans compared with the average 15-20% rate in developed countries. Banks decline to extend small loans to companies which in many cases fail to come up with the needed collateral. The combined micro-loan scheme, where part of the loan is non-refundable and the rest is backed with state guarantees, has offered a solution for this, *Népszabadság* observes.

EIB provides EUR 100mn loan to MFB

The European Investment Bank (EIB) is providing a EUR 100mn loan to state development bank MFB to refinance SME loans and local infrastructure projects. More long-term loans will be available for SMEs and preferred local infrastructure projects will be promoted, said EIB vice president Wilhelm Molterer, who is in charge of Hungary affairs. The loan will help to create jobs and to improve Hungary’s competitiveness, he added.

Business environment

Hungary slips down on the Doing Business list

Hungary’s slipped to 54th place on the World Bank’s latest Doing Business ranking from 51st a year earlier. The ranking gauges regulations that enhance business and constrain it. The World Bank said that Hungary made starting a business more complex by increasing the registration fees for limited liability companies and adding a new tax registration. But it improved access to credit information by passing its first credit bureau law mandating the creation of a database with positive credit information on individuals. In the area of taxation, Hungary made paying taxes easier for companies by abolishing the community tax, the World Bank said. At the same time, Hungary increased health insurance contributions paid by the employer, it added. On the positive account Hungary reduced the time to export and import by allowing electronic submission of customs declarations and other documents.

Legislation

New tax type introduced for Small Business

The new tax type introduced by the Act on the Itemised Tax of Enterprises with a Small Tax Base and Small Enterprise Tax voted by Parliament on 1 October will introduce some important changes.

The tax applies to private entrepreneurs as defined in the Act on Personal Income Tax, single member companies, limited partnerships having only private person members and general partnerships having only private person members who have announced to the state tax authority on the form prescribed for this purpose that they intend to fulfil their tax obligations according to the rules of the itemized tax for enterprises with a small tax base.

The enterprise with a small tax base shall pay HUF 50 000 itemised tax on the small taxpayer in full-time employment and HUF 25 000 itemised tax on the small taxpayer not qualifying as a full-time employee. In addition to the itemised tax, the taxpayer qualifying as an enterprise with a small tax base throughout the calendar year shall pay 40% tax on the part of its income realized during the calendar year exceeding HUF 6 000 000. The taxpayer not qualifying as an enterprise with a small tax base during the entire calendar year shall apply this 40% tax rate on the part of its income exceeding the product of the number of months to which the itemised tax applies and HUF 500 000.

The taxpayer may also chose to fulfil his local business tax payment obligation on a simplified basis assessing its tax liability on a tax base of HUF 2.5mn each for the municipalities of its seat and site, which, assuming a tax rate of 2%, means an amount of HUF 50,000 for the entire year. The taxpayer may apply apportionment in the case of local business tax if his obligation to pay the itemised tax of small taxpayers is suspended.

Government Control Office gets more powers

An amendment motion now before Parliament would extend the powers of the Governmental Control Office *KEHI* to look into the operations of companies with direct or indirect state ownership, *Népszabadság* reports.

As the government acquired shares in listed companies when it acquired assets from private pension funds, it could gain unhindered access to confidential matters on such companies as Magyar Telekom, Richter, OTP and MOL. The news may seem shocking to investors at first glance, but various state bodies already have the power to look at confidential data of listed companies, experts told *Napi Gazdaság*. For example, they say, the financial supervisory may look into the affairs of the OTP bank, and the Energy Office oversees the oil and gas company MOL. Current rules allow *KEHI* to carry out checks and controls at companies in majority state ownership.

The amendment would extend *KEHI*'s authority to companies in which the state has any shares. However, the extension of *KEHI*'s powers to look into the MNB's affairs would be regarded as a breach of the MNB's independence by the European Central Bank, and would not strengthen Hungary's position in IMF talks, the daily writes. *KEHI* 's extended license to oversee MNB operations would not only violate the bank's independence but would be pointless, the MNB said, as the central bank's financial operations are already overseen by two regulatory bodies.

Dutch presence in Hungary

Eurolux-Trans Kft

Eurolux-Trans Kft was established in 1992 from Borsod Volán's international transportation division. The company is 50% owned by the Dutch De Rijke group and 50% by the German Solle GmbH. Eurolux Kft has an own fleet of 52 trucks - with an average age of two years - satisfying the most stringent environmental-protection regulations and 20 trailers covered with tarpaulin. As the company is specialised in the transport of industrial carbon-black, a significant part of the fleet (74) is made up of bulk trailers. Since 1994 the company has been the contractual transportation partner of the Columbian Tiszai Koromgyártó Kft. (the Hungarian carbon-black manufacturer of the international Columbian Chemicals company) for the delivery of both loose and packaged (big-bags and PE sacks) materials.

Industry

Bridgestone increases production capacities

Japan’s Bridgestone Corporation, the world’s largest tire and rubber company, has announced that it will increase the production capacity of its passenger car radial tires (PSR) at its Hungarian subsidiary, Bridgestone Tatabánya Termelő Kft., with an EUR 267 mn investment. The planned expansion will increase production capacity by around 12,000 tires per day, bringing the plant's total capacity to 18,000 tires per day. The expansion is expected to be complete during the first half of 2017, Bridgestone announced. In total, some 500 new jobs are created. Recently added production capacity in the motor vehicle industry could increase the Hungarian GDP by almost 2 per cent, according to the Ministry of National Economy.

Automotive

Orbán hails progress at LuK Savaria

Hungary’s growth potential in is in the automotive industry, Prime Minister Orbán declared at a ceremony opening the new stamping line of clutch manufacturer LuK Savaria in Szombathely. The 20,000m^2 production hall was built for HUF 3.4bn, of which HUF 1bn was a grant as part of the New Széchenyi Plan, said Szombathely mayor Tivadar Puskás.

Construction/Infrastructure

Cabinet approves sports complex

The cabinet has decided to build a sports and leisure park comprising more than ten facilities on the land around Budapest’s Puskás Ferenc stadium. The cabinet will allocate HUF 1.4bn (EUR 4.7mn) for the preparatory works, with the first phase to be completed by 2016 and the second in 2020. The complex will include a new 65,000-seat national stadium, a swimming and water polo centre, a multifunctional sports arena as well as a gymnasium. In addition, the nearby National Sports Hall, Millenáris Velodrom and Kisstadion will be upgraded.

Services

Liberalisation of postal services

Taking the final step towards fully liberalised postal services, Hungary's Parliament has approved new legislation to terminate the monopoly of national service provider Magyar Posta. The move removes the last obstacle in the way of opening the market in its entirety to privately owned companies. The new legislation defines the future role of Magyar Posta as that of a universal postal service provider until the end of 2020. The special status of the former incumbent is necessary to ensure basic postal services remain available to everyone in Hungary at affordable prices, including remote areas where they cannot be operated profitably, the minister said. The law makes it possible for Magyar Posta to receive compensation from budget funds for losses incurred by keeping these services operational throughout the country.

Financial services

Banks critical of the Financial Transaction Tax (FTT)

Levente Kovács, chief secretary of the Banking Association, warned that as a consequence of the FTT large corporates may withdraw not only a considerable chunk of their turnover but also some of their savings from the local banking sector, which already operates at a declining loan/deposit ratio. He said the political assault on banks is unfair and while political capital may be forged of this belligerent mood the slogans will eventually cost dearly.

The banking sector equals calculability and security for several millions of Hungarians, he underlined. Kovács rejected the recurring theme that the banks had received funding from the IMF credit facility and that they are still taking capital out of the country. He stressed that no foreign-owned bank had been supported from the IMF programme, reminding that those who had been assisted are Hungarian-owned banks (such as OTP, FHB, MFB) to the tune of some EUR 2bn (HUF 560bn).

According to the Banking Association, over the past 20 years the sector produced a 3% return on equity (ROE) on average above inflation, whereas in Poland and the Czech Republic REO will exceed 15% even in the crisis-stricken years. In the West, both banks and multinational companies generally reach a 6% real ROE, while in Hungary the past few years were all about losses. The outlook on this year is also dim, he added. A 1% decrease in corporate lending is responsible for an 0.5% GDP contraction, he added.

Research/Innovation

R&D spending at 21-year high in 2011

Spending on research and development in Hungary reached HUF 336.5bn (EUR 1.3bn) in 2011, some 1.2% of GDP, according to preliminary figures from the Central Statistics Office.

This is the highest figure, in GDP terms, since the 1.6% recorded in 1990. Total R&D spending in 2011 grew 8.5% from the previous year. The number of research institutions went up 0.6%, while the number of research jobs expanded by 2.6% to 37,000 researchers and 18,500 assistants. The EU financed HUF 45.3bn of the total R&D spending in 2011, or 13.4%.

Telecommunication

New tax contemplated on fixed networks

The Hungarian government is mulling the extension of a planned utility tax not only on underground ducts and pipes, but also on above ground cables, wires and pipes, local daily *Népszabadság* reported, citing unnamed sources. If the new levy gets extended this way, the distribution of the burden could change considerably.

The statistics by the National Media and Communications Authority (NMCA) show that at the end of August 2.9 million TV subscriptions were registered at the 11 largest market players that cover nearly 88% of the broadcasting market. The number of fixed-line subscriptions was 1.9 mn, including 1.1 m analogue and 780,000 digital.

The Netherlands registered UPC is the market leader in cable distribution services with a 28% market share, followed by T-Home (20%) and Digi (17%). Other players with a sub-5% share are Invitel (4.6%), Tarr (4.5%), PR-Telekom (3.9%) and ViDaNet (3.7%). These are the service providers that may be affected by the extension of the new utility tax, provided they have above ground cables. Although the paper does not mention energy companies, electricity distributors do have massive infrastructure of overhead power lines, which could also be included. *Portfolio.hu* tried to assess the impact of the new utility tax (HUF 100 per metre per annum) and found that the length of the traditional utility network is about 227,000 kilometres, excluding the telecom sector. Overhead power lines would add another 128,000 kilometres. Under the extension of the levy electricity companies would pay the lion’s share of the tax.

Transport/logistics

Pápa airbase to be a logistics centre

Pápa Airport will be upgraded into a logistics centre, government commissioner Zoltán Kovács and mayor Tamás Áldozó announced in the West Hungarian town. They said the military airport, used by NATO, will also handle civilian traffic in the future. The cabinet decided after consulting NATO to upgrade Pápa airport into a mixed-use logistics hub suitable for receiving both civilian and military cargo planes, Defence Minister Csaba Hende told reporters.

Development of Győr-Pér airport

The development of Győr-Pér airport will be partly financed by AUDI Hungária Services Zrt. The total costs are estimated at HUF 2bn (EUR 6,65mn), the car maker will finance HUF 1.5bn HUF (EUR 4,9mn) of it and have a share of 47,86% in the airport management company Győr-Pér Repülőtér Kft. The local government of Győr, the Hungarian State and the local government of Pér will have respectively 40.18% , 9.15% and 2.81% shares.

The development will include the extension of the existing 30m wide runway (from 1,450 to 2,030 m), the enlargement of the taxiway (from 10 to 15 m), making new parking places for Boeing 737 and Airbus 320 planes, building a new hangar and an apron and upgrading the maintenance and service capacity of the airport. According to the documents, the costs for the construction works are estimated at EUR 4,2mn, whereas for the landing system at EUR 1,4mn. The service facilities and equipment would cost EUR 0,5mn each.

Energy

Government wants to reshuffle the gas market

The Hungarian government has been tightening control over firms in the energy and other sectors, and is also seeking to take over the local gas business of E.ON. The bill, submitted by János Lázár, the head of the Prime Minister's Office, gives pre-emptive buying rights to the state for stakes in companies running "safety natural gas storage". It stipulates that such facilities must be owned by the state but can be operated by companies in concession.

Népszabadság said the bill meant that the government would take over the gas storage facility near the Southern Hungarian village Algyő, owned by MMFB, a firm under MOL's control. The facility holds Hungary's strategic gas reserves of 1.2 bcm and the rest of its capacity, 0.7 bcm is in commercial usage, *Népszabadság* said. Lázár said in the bill that stricter state control over strategic natural gas reserves would serve the interests of household consumers. The Hungarian government has pledged to keep households' costs moderate in public utility sectors mostly owned by foreign firms, and has had conflicts with foreign investors by levying big special taxes on banks, telecoms, energy and retail firms.

Government gives priority to south Stream

A final project decision has been made on Hungarian section of the South Stream natural gas pipeline. The news was announced by Gazprom Deputy Chairman Alexander Medvedev and CEO Csaba Baji of the Hungarian Electricity Works (MVM). The 229-kilometer Hungarian section will stretch along the border with Slovenia in the southwest, from Hercegszántó to Tornyiszentmiklós, with a proposed throughput capacity of 30 billion cubic meters per year. The project cost is EUR 600mn with a completion date of 1st January 2016. According to the agreement, 30% of the project cost will be covered by the parties to the joint venture, the remaining 70% will be financed with bank loans. MVM has paid HUF 102.5mn (EUR 358mn) to the Hungarian Development Bank for a 50% share in the local project company, Csaba Baji said at the press conference.

Nuclear power plant tender in the works

Bids for the expansion of the Paks nuclear power plant by two blocks will be invited later this year or early in 2013, Development Ministry state secretary Pál Kovács announced. The tender will be announced by state electricity works MVM, owner of the power plant, and MVM will be in charge of working out the financial concepts, he added. The estimated cost of the project is HUF 2 trn (EUR 7,017bn) for each new block, *Napi Gazdaság* writes. There is a good chance that Hungarian suppliers can be involved, Kovács said, naming electricity grid operator MVM Ovit, steel maker SD Dunaferr and engineering company Ganz EEG.

Retail

State tobacco wholesaler gets HUF 450mn (EUR 1.5mn)

The government earmarked HUF 450mn (EUR 1.5mn) to set up Nemzeti Dohánykereskedelmi Nonprofit Zrt., the state-owned company to be in charge of tobacco wholesale when the tobacco trade becomes a state monopoly on July 1, 2013. The relevant law allows one tobacco shop per 2,000 residents, to be supplied exclusively by the new company. An estimated 7,000 tobacconists could receive permits to operate, according to *Napi Gazdaság*.

Licences to sell tobacco will be issued for a minimum of 20 years. The state is expected to announce the concession tender by November 15 in all Hungarian municipalities and to announce the winners two months later. The contracts will stipulate the concession fee to be paid by tobacconists.

Environment

House passed waste management bill, but President vetoed it
Parliament passed a bill to make waste management a non-profit activity. According to the initial version from January 1, 2014 waste management may be carried out only by non-profit organisations that conclude a contract with the relevant local councils.

The waste removal fees will be regulated by the government. The bill also introduces waste disposal contributions from January 1, 2013, based on the quantity and type of waste disposed of at waste depots. The extent of the contribution will rise from 2013 to 2016. The Regional Development Ministry will spend the sums collected on tasks related to waste management. It is worth recalling that the EU began legal proceedings against Hungary in late August over the introduction of the new waste management system.

However, President János Áder sent back the law to Parliament. He justified his decision by the fact that there are some contradictions to the EU regulations, regulations on remedy possibilities are missing and in some parts the wording is imprecise. He sent the law back to Parliament, but the Ministry will soon submit the law in a somewhat modified form.

Agriculture

The new land law aims medium sized farms

The new land bill will outlaw the sale of farmland to foreigners, Prime Minister Viktor Orbán told the youth section of farmers group Magosz in Cegléd. The bill, submitted to Parliament on July 12, will “protect farm land from speculators and bankers” and limit large estates. It will also regain “land stolen through pocket contracts,” he said. So-called “pocket contracts” are arrangements in which Hungarian farmers allow foreigners to farm their land.

Orbán emphasised that the goal of modifying property proportions is to strengthen the medium-sized property owners. The prime minister added that the rural development ministry should lease even more land to farmers, and noted that the government’s land lease scheme had multiplied the number of land users by 20 times in western Hungary and 45 times in the south.

Food industry

Csányi's farm group unveils ambitious expansion plan
Bonafarm, the agricultural group owned by OTP chief Sándor Csányi, plans to expand further in the food industry with HUF 50bn (EUR 137mn) of new investments planned in the next two or three years, *Napi Gazdaság* writes. Bonafarm has invested HUF 24bn (EUR 80mn) in the agriculture sector since it began operations in 1995, Csányi said. Bonafarm plans to build a new slaughterhouse in the Bóly-Pécs area with capacity to process one million hogs annually, within one or two years. In addition, a new production facility on the outskirts of Szeged will be home to a new Pick factory within three years.

Tourism

Tourist numbers higher in August
Hungary received 6.6% more foreign tourists in August than one year earlier, who spent 4.5% more nights in paid accommodation, the Central Statistics Office reports. The overall tourist number was 4.8% higher, with guest nights up 3.8%. There was a 3.3% rise in the number of domestic tourists, who spent 6% more guest nights. The average room occupancy at Hungarian hotels was 63.3%.

Top tourist sending countries August

		number	y-on-y % chg			number	y-on-y % chg
1	Germany	347,287	2.1	6	Czech Republic	75,148	-1.3
2	Poland	135,908	23.6	7	Russia	64,926	12.7
3	Italy	107,528	1.6	8	Romania	61,161	-12.6
4	**Netherlands**	**99,524**	**15.9**	9	UK	60,279	-5.6
5	Austria	87,941	4.2	10	Slovakia	53,767	11.6

Events

CEPLAST

2nd Central European Plastics and Rubber Exhibition

Date: 7-9 November 2012

More information: http://www.targikielce.pl/index.html?k=ceplast_en&s=index

Food of the World

International Exhibition

Date: 18-20 November 2012

More information: www.izekesborok.hu

TRANSLOG Connect

Central-East European Logistics and Supply Chain Management Congress and Exhibition

Date: 28-29 November 2012

More information: www.translogconnect.eu

The Embassy together with Port of Rotterdam is participating in this event with the aim to connect Dutch companies operating in the field of transport/logistics to Hungarian and regional ones. Should you need more information, don`t hesitate to send an e-mail to bdp-ea@minbuza.nl