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Dear Reader,

The "IMF saga" has been continuing with little progress by exchange of official letters, thus growing number of analysts predicts that if the current favourable external financial condition will continue, the IMF agreement will not be reached before next Spring, if ever. Now Hungary may be able to sell Eurobonds before agreeing on an IMF rescue loan because investor appetite for risk has increased. However the recent improvement in Hungary's risk premium is entirely due to global developments, while country-specific risks mostly worsened.
Nevertheless, the Hungarian government may consider further spending cuts on top of the ones recently flagged in order to facilitate agreement with international lenders and decided to put off a scheduled vote on the budget bill amendments. The final vote on the 2013 budget also got delayed, creating an opportunity for straightening out the budget that currently stands on wobbly feet. As a matter of fact, with the overoptimistic growth conditions envisaged by the government there is a hole of several hundred billions of HUF on the budget. It looks very likely that we will be let in on the details of yet another austerity package soon. In the last week of the September the Monetary Council of Hungary's Central Bank (MNB) has lowered the base rate by another 25 basis points to 6.50%. The cut was supported by the four external members of the Council only. Many commentators see this as sign of MNB giving up its inflation target. The MNB's latest quarterly report foresees 5.8% inflation this year, up from the 5.3% forecast in the June report. The MNB's prediction for inflation in 2013 has risen from 3.5% to 5.0%.

As to the events organised by the Embassy, trying to make a good use of the opportunity offered by the World Cup Qualifier game Hungary v The Netherlands we organised a small seminar on the cooperation possibilities in the field of (re)construction of sports stadiums in Hungary at the premises of the Dutch-Hungarian Architecture bureau Roeleveld-Sikkes in Budapest. The presentations by representatives of the Hungarian National Centres for Sports, Roeleveld-Sikkes, Philips Hungary, and Zwart & Jansma Architects were very interesting.

The Chargé d'affaires a.i., Bert van der Lingen had a working visit to Miskolc, meetings with mayor Ákos Kriza and deputy mayor Peter Pfliegler, and participated in a city planning seminar on DISC (Dutch Initiative on Sustainable Cities). The regional visit was completed by a visit to a 50% daughter company of one the biggest Dutch transport companies, De Rijke, where talks took place with director Lajos Kiskun (Eurolux trans).

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

EU relations

Hungary remains one of the main beneficiaries of Cohesion Funds
According to the report of the EC on the use of the EU funds in 2011, Hungary was the biggest beneficiary in terms of Cohesion Funds/GNI, with EUR 3.6bn. in absolute terms, Hungary is the third behind Poland and Spain. As to the agriculture and environment related payments, Hungary received about EUR 1.5bn. While the latter figure is the 9th highest amount, in relative terms (per GNI) Hungary was ranked second. According to the report summarised by Bruxinfo, Hungary's direct contribution into the EU budget was EUR 836.4mn, and together with custom and levy revenues totalled EUR 937mn. As a result, the net balance was EUR 4.5bn.

Social partners want more EU funds on boosting economy
Both employers' and employee representatives urged that a bigger part of the EU funding available be spent on boosting the economy at a meeting of the National Economy and Social Council (NGTT). The meeting reviewed Hungary's utilisation of EU funding so far and between 2014-2020. Deputy state secretary of the National Development Ministry Enikő Földi said the total amount of EU funding available to Hungary between 2007 and 2013 is HUF 8,200bn or EUR 29.3bn including co-financing. By the end of June 2012, the value of the supported projects exceeded HUF 6,460bn. The amount of funding disbursed based on invoices plus the own funds of successful applicants reached 34% of the total amount, Földi said.

Economic policy

Strategic agreements with investors foreseen
The government will soon sign strategic agreements with foreign-owned multinationals in Hungary with the goal of getting them to reinvest a bigger part of their profits locally, state secretary for foreign affairs and trade Peter Szijjártó said in an interview with Gazdasági Radio. The government plans to sign about 40 such agreements in the coming weeks and months, and between four and five, but at most six could be signed each month, he added. Talks on the agreements are underway with Knorr-Bremse, ThyssenKrupp, Bombardier, Nokia Siemens and Opel, he added. The agreements are expected to broaden companies' circles of Hungarian suppliers and involve more in vocational training as well as regional development. The government has already signed a strategic agreement with Coca-Cola. Also, a few Dutch firms are believed to be on the list of potential strategic partners.

Inflation Report sees need for adjustment
The fiscal loosening steps announced by the government since June would hit a cc. HUF 440bn hole on the 2013 budget balance. Should the government fail to offset the budgetary effects of the measures, next year's deficit may be around 3.5-4.0% of GDP, the central bank (MNB) projected in its quarterly Report on Inflation. As such an overshoot of the target would put cohesion funds into jeopardy, the MNB staff's forecast is based on the technical assumption that in the future the government will neutralise the deficit increasing effect of the measures taken in the past period. If this adjustment is indeed carried out, the budget gap could be taken down to 2.7% of GDP and if all free fiscal reserves are cancelled the shortfall could be reduced to 2.4%. Staff said that only the cancellation of the free fiscal reserves can keep this year's budget deficit below 3.0% of GDP. MNB staff said further balance improving measures may become necessary for the fiscal adjustment to be sustainable over the medium term.

Budgetary policy

Budget deficit close to 100% of annual target
Hungary's general government deficit came in at HUF 122bn (EUR 435mn) in August, the National Economy Ministry reported. The gap has never been this large in the 8th month of the year before. The August shortfall has taken the cumulated deficit to nearly 100% of the full-year target. The details show that the contribution of businesses were behind expectations, while the burden on households increased and consumption taxes have also helped state coffers expand.
Hungary's budget deficit in January-August reached HUF 560bn (EUR2bn.), which is still exceptionally small number compared to the previous years' comparative data. While revenues do grow but not as much as projected and overshoots are already visible at expenditures. And there's the additional risk of a gradually worsening growth outlook and that the Hungarian economy is likely to be in recession this

year, which is weighing down on the budget too. Subsequently the government would badly need to implement the additional adjustment measures undertaken in May and to cancel (i.e. not use) the budget reserves if it wants to meet the 2.5% of GDP deficit target, Portfolio.hu concluded.

Monetary policy

Monetary Council continues rate cutting cycle
The Monetary Council of the MNB lowered the base rate by another 25 basis points to 6.50%. The market was split about the possible outcome of today's policy meeting due to uncertainties over how cautious the external MPC members. The rate cut indicates that tension between the external and internal members of the monetary council is growing, analysts observed. Simor's term as governor ends in March, as well the term of the other internal members of the Monetary Council. The MNB's latest quarterly report foresees 5.8% inflation this year, up from the 5.3% forecast in the June report. The MNB's prediction for inflation in 2013 has risen from 3.5% to 5.0%.

Law on Budget Council modified
Parliament voted on amendments that strengthen the Fiscal Council's scope of influence and professional competency on a recommendation by the European Council made as part of an excessive deficit procedure against Hungary. The amendments to the Act on Economic Stability, submitted by National Economy Minister György Matolcsy, would allocate funding from the budget of the Office of Parliament for both the Fiscal Council and its secretariat. They would allow the body to express opinions on proposed amendments necessary for the budget as well as on bills on taxes, fees, contributions or other payments designed to finance public services. The amendments would require the presence of all three Fiscal Council members to deviate from the agenda at meetings. In cases which require an opinion within one day, members could participate at meetings via "electronic telecommunications device" instead of in person. The amendments would also ease the government's reporting responsibility to the Fiscal Council, requiring it to submit the budget draft – as well amendments changing the revenue or expenditure total or increasing the deficit – and supporting calculations, but not a list of the fiscal effects of other legislative changes.

Employment

Employment figures improve temporarily
The average unemployment rate in Hungary was 10.4%in the 15-74 age group in June-August, down from 10.5% in May-July and from 10.8% in the same period a year earlier, data published by the Central Statistics Office (KSH) show. There were 455,700 unemployed in Hungary in the 15-74 age group on average in June-August, down 3,100 from May-July and down 7,100 from a year earlier. After rising to 500,000 – a new peak – in January-March 2012, unemployment gradually fell back to about 5,000 below the level around which it fluctuated between April-June and October-December of 2011. The number of unemployed still exceeded the level before the 2008 autumn crisis by nearly 140,000. Analysts believe that this improvement is due to seasonal work in the Summer and thus will increase in the rest of the year.

Wages in Budapest compare to Bangkok
As to the wages, a recent study by UBS found that hourly wages in Budapest are relatively low. The survey examining 72 cities looked at four professions in manufacturing and 11 in the services sector. The average net USD 4.60 per hour earned in Budapest is on a level with pay rates in Bangkok and Beijing.

Competitiveness

Hungary falls considerably in Global Competitiveness Index
Following a major downfall, Hungary ranks 60th on the World Economic Forum's Global Competitiveness Index (GCI 2012-2013). WEF now shows also on an interactive map which countries in the world are the most competitive. Hungary's international competitiveness has worsened considerably over the past year. While last year Hungary ranked 48th in the GCI 2011-2012, this year it came in only 60th, the latest report by the World Economic Forum shows. The severity of Hungary's decline in the ranking is show that of the first 70 countries only Sri Lanka slipped more than Hungary (16 places).

With this "performance" Hungary is back where it was at its worst in 2008-2009 when it ranked 62nd on the GCI. Of the EU27 Hungary is the 23rd most competitive state. Among the country's regional rivals the Czech Republic is 39th (38th last year), Poland is 41st (41st), Slovenia is 56th (57th) and Slovakia is 71st (69th).
As in previous years, this year's top 10 remain dominated by a number of European countries, with Switzerland, Finland, Sweden, the Netherlands (moved 2 up to rank 5), Germany, and the United Kingdom confirming their place among the most competitive economies. The many different components, each of which measures a different aspect of competitiveness, are grouped into 12 pillars of competitiveness. While Hungary scored only a few points differently in these pillars than a year ago, this minor change was enough for a marked decline in its global ranking. Hungary recorded an improvement only in two of the pillars, no change in another two and a decrease in as many as seven. It is highly unfavourable that negative changes occurred in the basic pillar of institutions, as fundamentals comprised in this group have a substantial impact on the competitiveness of the whole country.

SMEs

Survey on EU funds for SMEs
The managers of SMEs operating in Hungary believe that it has become harder to acquire European Union tender funding, K and H Bank reported in its fresh quarterly survey of 500 SME directors in the country. A total of 39% of the SME directors participating in the survey said that they believed it had become more difficult to gain access to EU tender funding, up from 32% the in K and H Bank's previous survey. A total of 40% of directors of micro companies and small companies reported that they think it has become harder to obtain EU tender funding, up from 31pc and 34pc, respectively, in K and H Bank's previous survey. Only managers of middle-sized companies reported an improvement. K and H Marketing Department Director László Németh said that less than one-half of SME directors believe that they have the chance to receive EU tender funding over the coming year, the lowest figure the bank has ever recorded. At the same time, a greater number of SMEs, particularly those of middle-sized enterprises, said that they found EU funding tenders in which they were seriously interested than in its previous quarterly survey.

Business environment

Number of liquidations continues growing
The number of liquidation procedures against Hungarian companies grew 28% to 23,172 in the twelve months to August, compared to the previous twelve months, company monitoring website feketelista.hu told MTI. In 2010, 16,133 companies had been wound up, and their number grew 12% to 18,103 last year. Chairman of the national association of liquidators Ferenc Somogyi said that the acceleration can be explained with the worsening financial situation of businesses and the stricter actions of Hungary's tax authority. Somogyi said there are about 110 liquidators operating in Hungary.

TOP100 published by Figyelő
MOL has retained its position as the largest company in Hungary with revenues of HUF 5.3trn (EUR 18.6bn) in 2011, according to the annual Top 200 list compiled by business weekly *Figyelő*. Audi was ranked second with net revenues of HUF 1.7 trn (EUR 5.9bn). GE Hungary moved up one place to third, overtaking Nokia with HUF 1.2 trn (EUR 4.2bn) revenues. Total income of the 200 largest companies rose by 10% last year to HUF 33trn (EUR 115bn). Their combined after-tax profits jumped 56% as 158 of the 200 companies closed 2011 in the black. There were 31 new companies on the top 200 list this year, compared with 24 in 2010.

As to the largest Dutch companies present in Hungary, the biggest was Philips Hungary with net revenue of HUF 702bn (EUR 2.4bn) which was sufficient to get 7th place. Shell Hungary with HUF 250bn (EUR 877mn) net revenue was 28th on the list, whereas Unilever Magyarország Kereskedelmi was ranked the 87th by Figyelő.

Legislation

Special tax challenged at the European Court

Sports retailer Hervis has turned to the European Court of Justice claiming that the special tax levied on retailers is discriminatory against foreign-owned businesses while providing unfair advantage to domestic companies. Thus the European Court of Justice has received its first such case from Hungary regarding the special tax from the Székesfehérvár court where Hervis filed its case, the Luxembourg-based court has confirmed. The charge is a progressive tax levied on annual net revenues above HUF 500mn (EUR 1.75mn). Companies with annual net sales between HUF 500mn (EUR 1.75mn) and HUF 30bn (EUR 105mn) pay 0.1% on their sales, 0.4% between HUF 30bn and HUF 200bn (EUR 700mn), and 2.5% on turnover above HUF 100bn. Hervis disputes the compatibility of the regulation with EU law, saying it discriminates against foreign-owned retailers, as Hungarian companies operate under a franchise scheme whereby revenues are split among many shops, hence they are exempt from paying the tax. Hervis is owned by Austrian food retail chain Spar.

Dutch presence in Hungary

Studio In-Ex Kft

The In-ex Studio Ltd. partnership was established in 1997 by Balázs Molnár who since then has been operating as the manager of the architect firm. Initially the firm was mainly known for providing specialist computer aided design (CAD) services mostly for projects of Hungarian and international architect firms, but later created several of its own designs. Based upon the Studio's strong relationships with international clients and extensive professional connections, in 2010 the Dutch Kontek B.V. an Integral Drawing & Advice Management Company in the Real Estate and Installation Business, the Hungarian architect Péter Krámer, the Hörcsik CAD Consulting Ltd and Balázs Molnár has concluded a strategic partnership and are operating under the name Studio In-ex Architects & Engineers Ltd. The firm provides planning of a wide range of building types from houses to large offices and industrial real estates. In addition, the firm's main role remained on providing services for large international architect firms, which includes drawing, photorealistic renderings, three dimensional models, video animations using high-tech hardware and software, and performing drawing services for planning or real estate database that demands large capacity. Being one of the important firms of the region dealing with digital drawing and planning, the Studio In-ex Architects & Engineers Ltd. employs more than twenty graduated professionals including architects, interior designers, and IT professionals with strong foreign language skills and international work experience.

Industry

Industrial production drops slightly

The Hungarian economy, which slipped into recession, started the third quarter badly too, as its only engine, the industry, has also declined. According to figures adjusted seasonally and by working days, industrial production dropped 1.2% month on month in July, the KSH reported. This figures reveal that export orders are behind the base period's print and that the country's exports stagnate rather than grow. The sector depending on the external business cycle still has something to fall back on, though, as its total stock of orders remains high. Nevertheless, if the industry fails to step up its performance, Hungary will not get out of technical recession in Q3.

Stadler prepares to expand in Szolnok

Swiss vehicle manufacturer Stadler Rail launched a capacity expansion project at its multiple-unit train plant in Szolnok, part of a HUF 3.5bn (EUR 12mn) investment. Vehicle production capacity will rise next year to 370 units from 220, with production at the new facility due to start in the first quarter of 2013. Stadler broke ground for a new quality control centre at its Szolnok base. The projects will create 230 jobs, 150 of them at the expanded production centre. The company currently employs 280 in Szolnok, along with 70 contracted workers. The new projects boost Stadler's total investment in Hungary to date to HUF 12.5bn (EUR 42mn).

Hantech opens workshop in Csorna

Agricultural machinery maker Hantech opened a new workshop building in Csorna, Győr-Moson-Sopron county. The company has its own apprentice school, teaching 40 students to become turners, locksmiths and welders. Hungarian-owned Hantech generated revenue of HUF 2.2bn (EUR 7.3mn) in the first eight months. This year’s target is to boost revenue by 15-20% from last year’s HUF 2.5bn (EUR 8.3mn) to more than HUF 3bn (EUR 10mn).

Automotive

Opel start new plant in Szentgotthárd

German carmaker Opel inaugurated a EUR 500mn engine plant at its base in Szentgotthárd (West Hungary). The investment, which creates 800 jobs, was inaugurated by deputy chairman of Opel’s management board Thomas Sedran and Prime Minister Viktor Orban. Mass production of an entirely new family of engines will start at the new plant by the end of the year. Opel built the 30,000sqm plant and installed 370 assembly line machines in a year and a half. It will turn out three- and four-cylinder petrol engines – 1.6-litre ones at the start – but production of diesel engines will begin later. The plant was built using “flexible” technology, which allows production to shift to different engine models in a short time, based on market demand, Sedran said. All of the engines the plant will make meet Euro 6 environmental standards. The plant brings the amount Opel has spent on investments in Hungary to EUR 1.25bn. Opel’s plant in Hungary has turned out 7mn engines, 5.5mn cylinder heads and 85,000 cars since it started production.

Construction/Infrastructure

Stadium projects in the 2013 budget

The 2013 draft budget bill earmarks HUF 9.2bn (EUR 32mn) for the reconstruction of Debrecen’s Nagyerdei Soccer Stadium. The cabinet also plans to complete the multifunctional sports facility and stadium Tüskecsarnok in Budapest, which has been half-finished for 16 years. This project is to cost HUF 5.9bn (EUR 20mn). The refurbishment of the Ferenc Puskás soccer stadium is also be started. On top of that the cabinet decided in April to build a new national stadium by 2016 adjacent to this one. According to an August decision, the soccer stadium of sports club FTC will be demolished and rebuilt, absorbing nearly HUF 20bn of state funds. The facility is to be completed by 2014.

Services

SAP opens consultancy centre

The new centre, which offers local services for the EMEA (Europe, Middle-East, Africa), but primarily for Central Eastern Europe for up to one year, started its operation in early September with a 10-strong staff of consultants. The company plans to up its headcount to over 30 by the end of 2013. The consultancy centre is located in the Budapest office of SAP, which gives work to 500 people.
SAP had chosen Hungary as its investment target country several times in the past. The consultancy centre is the third unit with an international scope. The software company founded the SAP Global Support Centre Hungary in 2001, which is responsible for the uninterrupted operation of SAP software primarily in German-speaking countries, with a 150-strong staff. In 2005, the company established SAP Labs Hungary, which develops applications for the world market, now with a headcount of 250 people.

Budapest real estate market remains stable

The Budapest industrial real estate market remained stable in H1 2012, showing balanced activity in terms of supply and demand. Overall, the lease market showed strong levels of activity. Many firms are in the market looking for space and mapping out opportunities. However, they still remained cautious and thus the number of actual transactions completed remained low. Net absorption was slightly negative (around 6,400 sqm) and the vacancy rate rose moderately to stand at 21.4% at the end of June. In total, there was 387,000 sqm of vacant space at the end of H1 2012. Rents did not show any discernible change in H1 2012 as headline rents for big box buildings ranged from EUR 3.2-4/sqm/month, while the rate for city logistics buildings was around EUR 4-5/ sqm /month. Rental contract strategies varied among owners taking on new tenants.

Financial services

Central bank changes loan terms to spur corporate lending

The National Bank of Hungary has announced it will change the terms and conditions of its two-year loan facility to further encourage corporate lending. The criteria for counterparties on the amount of corporate loans and the sanctions applicable in case of non-fulfillment will be eased and a new limit system will be introduced from October 2, the MNB said.

From October the amount of corporate refinancing loans – which play an increasingly important role in the economy, the MNB noted – will be taken into account, while the amount of commercial real estate loans, which represent risks to growth and financial stability, will not. Banks will be able to use the facility on the condition that they promise to maintain corporate lending at levels on June 30, 2012 levels, instead of those at the end of 2011.

The MNB introduced the two-year collateralised loan tender in March 2012 with the aim of providing long-term funding to credit institutions without a term premium. The facility is intended both to help banks to strengthen their balance sheets and to provide a safety net to preserve the capacity to lend in the event of a liquidity shock. The MNB noted that the stock of lending by Hungarian banks to the corporate sector fell by some HUF 211bn (EUR 0.75bn) in the first half of 2012, reflecting the unfavorable macroeconomic environment.

Insurance market plummeting
The dramatic dive in Hungary's insurance market is unparalleled in the region, according to Aegon regional director Gábor Kepecs. New insurance policy sales have dropped 25-30% this year in Hungary. The region's markets were developing along similar lines in 2010, but markets in Turkey and Poland have grown more rapidly, while there is 1-2% growth in the Czech Republic and Slovakia. Mortgages are more widespread in Hungary, affecting nearly a million households, than elsewhere in the region, said Kepecs. He observed that policies linked to investments have undermined confidence in insurance, as the crisis has brought losses for many. Kepecs expressed hope that the next two or three years will merely show stagnation. He suggested that insurance companies should return from investment products to covering risk. As to the last year results of AEGON, with HUF 2.2bn (EUR 7.7mn) in net revenue the company was ranked the third insurance company behind Allianz-Hungária Biztositó and Generali-Providencia Biztositó.

Hungary government to set up bank for farmers
Hungary's government on Friday reaffirmed its intention to establish a bank for farmers with the participation of the state. State secretary for the Prime Minister's Office János Lázár said the establishment of such a bank was "unavoidable" as the Hungarian bank sector "does not wish to finance Hungarian agriculture activities", a conclusion reached after a review of banks' stand on the new farm land act. The Hungarian Banking Association said in its stand, published late on Thursday, that the new farm land bill failed to sufficiently distinguish between land owners and those who farm land, which could make long-term financing difficult and raise lending risk. The government submitted the bill on land legislation to Parliament just before the summer recess on July 12.

Research/Innovation

Drug maker Egis opens HUF 7bn R&D centre
Hungarian drugmaker Egis, majority-owned by France's Servier, inaugurated a HUF 7bn research and development investment at its base in Budapest. Prime Minister Viktor Orban inaugurated the drug technology development and experimentation plant and the analytical development laboratory. Egis was awarded a HUF 226mn government grant for the HUF 3.7bn drug technology development and experimentation plant and a HUF 97m grant from the European Regional Development Fund for the HUF 3.3bn analytical development laboratory. The investments will create more than 50 jobs. Egis employs about 4,000 people at its plants in Budapest and the Hungarian city of Kőrmend.

Telecommunication

The result of the 4th mobile service provider annulled
The Metropolitan Court annulled the entire decision of telecom regulator NMHH, stipulating that the state-owned consortium MPVI illegally was appointed the winner of the biggest frequency block at the auction for spectrum related to the provision of mobile telecommunications services in the 900 MHz frequency band. The other three mobile carriers were also stripped of the awarded blocks. As it was outside the jurisdiction of the court whether the NMHH should restore the original state or call a new tender, the ruling did not address this issue, the company reminded. The three active participants,

Deutsche Telekom AG's Magyar Telekom plus local subsidiaries of Norway's Telenor ASA and the U.K.'s Vodafone Group PLC lodged a challenge against the tender results, claiming the state-owned telecoms company received unfair market advantage when it received its frequency.

IBM completes HUF 1.5bn (EUR 5mn) investment
IBM Data Storage has completed a HUF 1.5bn (EUR 5mn) expansion of its factory in Székesfehérvár, managing director Zoltán Takács said. The project, subsidised by HUF 370mn (EUR 1.2mn) under the New Széchenyi Plan, has created 180 new jobs. The number of employees at the factory now tops 1,000.

T-Systems moves to complex services
T-Systems will become Hungary's first company to offer a full-scale infocommunication technology portfolio, from October 1, following its merger of four IT companies, Magyar Telekom chairman and CEO Christopher Mattheisen said. T-Systems Magyarország, fully owned by Magyar Telekom, has recognised the need to move forward from being a traditional telecoms company and has acquired several IT companies over the years, CEO Róbert Budafoki said. The company will complete the merger of IQSYS, Dataplex and ISH Informatika this year and Daten-Kontor in 2013. T-Systems will offer integrated solutions tailored to the needs of 5,500 large companies and to clients in public administration.

Transport

E-toll system tender published
The cabinet has allocated HUF 42bn (EUR 150mn) to build an electronic road toll system, basing fees on usage, initially for trucks only, the official gazette *Magyar Közlöny* reveals. Trucks will be charged the highest fee permitted by EU regulations, without any transition period. Trucks would pay HUF 85.3/km on motorways and HUF 53.2/km on other main roads. The new decree does not mention the possibility of car drivers joining the new system voluntarily, a possibility left open earlier. The government is expecting HUF 75bn (EUR 263mn) in revenues from trucks alone under the new system next year after it becomes operative on July 1.

Energy

MOL’s share in Nabucco drops
The stake of FGSZ, a subsidiary of Hungarian oil and gas group MOL, in Nabucco dropped to 14.7% from 16.7% previously, local daily Magyar Nemzet reported. The company had failed to pay its share of the latest capital increase, that is why its stake decreased, explained FGSZ chief executive János Zsuga.

MOL announces investment plans in Hungary
MOL is planning to invest over HUF 300bn (EUR 1.1bn) in Hungary in the next three years, the oil company announced. The board of directors authorised executives to sign contracts for up to HUF 225bn of that sum this year in order to speed up the process. About half of the amount will be spent on exploration and field development in Hungary. Other sums will go to refining and marketing. MOL will build a butadiene factory in Tiszaújváros at a cost of HUF 30bn (EUR 110mn). The oil pipeline linking Százhalombatta and Sahy, Slovakia will be renewed with expanded capacity. The announcement was a surprise, said analysts with Equilor brokers.

Meanwhile, the thee Croatian delegates to the seven-member board of directors of MOL’s Croatian subsidiary INA have asked for an extraordinary meeting. They feel excluded from decisions and are worried about a decline in sales of oil products, according to Croatian state television. As there are three Hungarian members on the board as well chairman Zoltán Áldott has the deciding vote. The Hungarian members have voted down the Croatian ones several times, *Napi Gazdaság* points out.

Retail

Akciokatalogus.hu to start in days
Following the model of German retail chain promotion website kaufda.de, an expanded version is about to be launched in Hungary, Andre Mohr, the German investor behind the Hungarian initiative, has told *Napi Gazdaság*. The site is an alternative to leaflets being physically cast in mailboxes, Mohr said. No

direct price comparison is offered, but the site counts visits to individual leaflets, thus helping the chains, Mohr stressed.

Orbico buying FMCG distributor
Zagreb-based Orbico Group, the largest distributor of fast moving consumer goods (FMCG) in Central and Eastern Europe, is buying a majority stake in Hungary's Rafinanz Services, it was announced. The capital of the Hungarian company will be raised from HUF 100mn (EUR 333,000) to HUF 1.2bn (EUR 4mn) in three months, making Rafinanz Orbico the largest distributor of FMCG products in Hungary.Rafinanz co-founder Csaba Simonidesz will gain minority stakes in Orbico units in Hungary, Slovakia and the Czech Republic. Orbico's 2,300 employees supply more than 200,000 local and international brands to over 56,000 retail and wholesale partners in the region.

Environment

Work starts on *Donau Chemie* factory
Austria's *Donau Chemie* laid the foundation stone for its first Hungarian facility, a manufacturing site for water treatment chemicals, at the BorsodChem complex in Kazincbarcika. Production of ferric chloride and polyaluminium chloride will begin in April, 2013, following the EUR 6.4mn investment. Donau Chemie will utilise the hydrochloric acid by-product of BorsodChem's TDI production, saving transport costs. Kazincbarcika could become a water treatment chemical production centre in Central Europe, Donau Chemie CEO Franz Geiger remarked at the ground-breaking ceremony.

Agriculture

Grain trade drops on reverse VAT
The export and import of grain through the Hungarian-Romanian border crossings at Ártánd and Csengersima in the north Great Plain region dropped by 70% after the "reverse VAT" scheme, in which the purchaser pays VAT rather than the seller, was launched in the grain sector, a tax and customs authority report has found. Exports in June dropped 78%, while imports decreased 57%. The suspicious traders of previous years have disappeared totally, the report emphasises, but the volume traded at several points has dropped to a tenth of its previous rate, president József Vancsura of the grain farmers association commented. The reverse VAT scheme has met its aims and cleaned the market, just as it did in Romania earlier, he added.

Food industry

VAT evasion in agricultural trade remains high
Hungary's central budget loses HUF 130bn (EUR 460m) a year due to fraud involving VAT on food, daily *Magyar Nemzet* wrote. Citing a report by Ernst and Young, the paper said that about one quarter of the tax revenue expected from the sector is not collected due to fraud connected with the trade of vegetable, fruit, meat and poultry, vegetable oil, coffee, dairy and mill products. A typical way of evading VAT payments is to purchase goods destined to be sold to another EU country, in which case the purchaser is not obliged to pay VAT. The products, however, are re-sold within the country. The other way is to import goods from other EU members without paying import VAT, and sell the products on to retailers via intermediary firms, adding VAT for each transaction and pocketing the difference. The paper also noted that the cost of transactions was relatively high and if the VAT rate, currently set at 27% – the highest in the EU – were to be cut to about 10% it would no longer be profitable for evaders to use those two methods.

Chips tax' affecting Hungarian confectionery market
In H1 2012 Hungarian confectionery sales were down by 6% by volume, while sales of chocolate declined by 4% and sales of candies by 8%, in comparison with the same period of 2011, according to the research made by Gfk Hungaria. These results might be, according to GfK Hungaria, the result of the 'chips tax', the product fee applied to unhealthy foods that came into effect in September 2011. The tax is applied to soft drinks, sodas and juices containing less than 25% real fruit juice and over 8 g of sugar per dl; energy drinks; pre-packaged sweets containing 40% or more sugar; and salty snacks containing more than 10% salt.

According to the study by GfK, shopping habits have changed due to the introduction of the chips-tax, and Hungarian consumers have been buying confectionery products less frequently than before. One of the largest confectionery producers in Hungary, Bonbonetti**,** dismissed 70 of its employees and decided to cancel its plans to invest HUF 450mn (EUR 1.58mn) in a new production line, and listed the introduction of the chips-tax as a reason behind these decisions. The introduction of the chips-tax, 70% of which is borne by the confectionery industry, has placed industry players in extremely difficult situations. The situation got even worse when the tax level was raised from HUF 40/100 g of sugar content to HUF 130/100 g of sugar content starting from January 2012.

Tourism

Hotel revenues grow modestly
Budapest hotels ranked in the bottom half of STR Global's survey of occupancy rate, average net room price and revenue per available room (RevPAR) in 31 major European cities during the first seven months of 2012, the Hungarian Hotel and Restaurant Association announced. Budapest finished 27th in occupancy rate and 29th in average net room price and RevPAR among the 31 European cities examined in the first seven months of the year. The Hungarian Hotel and Restaurant Association noted that occupancy was 55% at hotels in Budapest and 45% at hotels throughout Hungary in the first seven months of the year. The gross average room price rose 3.5% yr/yr in Budapest and 4.4% throughout Hungary in the first seven months of the year. Hotels in Hungary generated composite room revenue of HUF 74bn (EUR 260mn) in the first seven months of the year, up 13.45 compared to the previous year.

Events

CEP Clean Energy and Passive House Expo

Date: 16-17 October 2012

More information: www.cep-expo.hu

HOVENTA International Hotel, Catering and Gastro-Technological Trade Exhibition

In combination with Service Expo, Budapest Calling and Business Travel Show

Date: 16-18 October 2012

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

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