Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

April 2013

The European Commission published its revised Spring forecast on Hungary which indicates higher deficit figures than those of the government. EU finance ministers meeting in June will probably postpone a decision on whether to remove Hungary from the excess deficit procedure to the autumn or winter, analyst commented after the government announced new measures to keep the budget deficit below 3% of GDP.

The Monetary Council continued its interest rate reduction policy, decreasing the base rate to 4.75% in April. Following a substantial drop in inflation and the relative stability of the euro exchange rate, further rate cuts can be expected as the international financial trends are also favourable for the Hungarian monetary policy. However, the lending programme announced by the National Bank in the beginning of April will be insufficient to restart growth.

The programme does not offer substantial additional resources; it will only improve the return on projects already being implemented. Its main purpose is to advance the market positions of smaller banks and savings cooperatives. As to the other economic indicators, they provide a mixed picture. While the industrial output was only a hair higher in April, the construction industry grew by 7%. The conjuncture indicators do not signal an imminent turn-around either, although the business confidence is slowly recovering.

As to the Embassy activities, the Agricultural Department of the Embassy has organised a conference in co-operation with *Makeosz* and *Zöldebb Városokért Nonprofit Kft* during the Renewable Energy Day of the Construma exhibition on 10 April. The 150 participants, mostly landscape engineers, could have an insight into the newest green solutions in the Netherlands from the invited lecturers, Mr Peter Oei (Dutch Foundation for Innnovation in Greenhouse Horticulture) and Mr Nico Wissing (ELCA).

However, the most important event was the Queen's Day and Investiture Celebration of King Willem-Alexander. The generous support of our sponsors made this feast very joyful and memorable.

We would like to express again our thankfulness to the companies that provided support:

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as well as Douwe Egberts, Unilever, Tebodin, Versteijnen Logistics, Fugro, TMF and Rollecate (bronze sponsors).

To see the official pictures of the event, please click here to go to the Embassy's website.

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

Budgetary policy

Both EC and IMF forecast deficit above 3%

The European Commission published its country report for Hungary in which it has lowered its deficit forecast for Hungary both for 2013 and 2014. The new estimates are 3.0% and 3.3%, respectively. These numbers are of key importance for Hungary as it badly wants to exit the EU’s excessive deficit procedure (EDP) and in order to do that the budget deficit could not exceed 3% in these years. This is still well over the government's deficit target of 2.7% of GDP. The EC’s numbers show that the Commission still does not believe Hungary sustainably fulfils the conditions of EDP exit. Hungary will take measures to correct the budget balance in order to end the excessive deficit procedure nine years after its launch, government said.

It is worth to compare the EC forecast with the recent figures of the fresh Fiscal Monitor published by IMF. According to the latter Hungarian government deficit will widen to 3.2% of GDP this year, a projection lowered from 3.7% in the previous monitor. The IMF noted in the report that the projection took into account the impact of fiscal plans announced at the end of January. IMF projected the deficit would widen to 3.4% in 2014. It sees the country's gross state debt as a percentage of GDP climbing to 79.9% in 2013 and 80.3% in 2014.

EU relations

Macro-economic imbalances are not excessive

The European Commission published the findings of the in-depth reviews carried out into 13 Member States identified in last November’s Alert Mechanism Report as showing signs of macroeconomic imbalances.

The in-depth review concludes, however, that Hungary is "*experiencing serious macroeconomic imbalances, which are not excessive but need to be addressed*." The EC noted that Hungary has been experiencing imbalances, in particular as regards developments related to the net international investment position (NIIP) and public debt. External imbalances have decreased as the current account is in surplus for the third year in a row and the NIIP has been improving steadily (from -117% in 2009 to above -103% in 2012), but it remains significantly more negative than the threshold.

In the Commission’s view, most of the recent external adjustment reflects the deleveraging of the private sector. "*While this has been happening, the rapid fall in corporate credit, against the background of policy uncertainty and sectoral surtaxes most notably on the financial sector, has contributed to historically low investment and productivity growth rates and therefore eroded the country's growth potential, which is very low.*"

Revised Convergence Programme submitted to Brussels

Hungary’s National Economy Ministry sent its Convergence Programme to the European Commission. The key message of the document was the cabinet’s insistence that the 2.7% of GDP budget deficit goal set for 2013 is achievable without additional corrective measures. At the same time, the government has also readjusted its outlook, at least in terms of the envisaged macroeconomic path.

The forecast for 0.9% economic output growth for 2013 was lowered to 0.7% and annual average inflation is now projected at 3.1% vs. 5.2% previously. GDP is expected to rise 1.9% in 2014 and annual average CPI is seen coming in at 3.2%. The 2014 budget is also crucial for Hungary in order to exit the EDP and for that the budget shortfall must be (convincingly) kept under 3% of GDP in that year too. Those concerned about an election budget may frown when realising that the government has raised its 2014 budget deficit target to 2.7% of GDP from 2.2% previously, and that reserves for next year are planned at an unusually low level compared to previous years.
The spending side measures include a more efficient wage control in the public sector, more targeted social benefits by municipalities.
The revenue side measures include the impact of the whitening of the economy, changes to the local business tax and the introduction of a levy on public utility infrastructure.

Economic policy

FX debt to be replaced by HUF denominated bonds

The Government Debt Management Agency (ÁKK) could support central bank plans to help the economy by renewing some of its expiring foreign currency debt in forint-denominated bonds, ÁKK deputy László András Borbély said in an interview with *Reuters*.

The National Bank of Hungary (MNB) announced a funding for growth scheme which includes a combined HUF 500bn (EUR 1.7bn) in zero-interest MNB refinancing to support banks' cheap loans to SMEs (see below) and a HUF 1,000bn (EUR 3.4bn) reduction in Hungary's short-term external debt.

Short-term external debt could be reduced partly by financing part of government foreign exchange expiries ahead from forints and part of it by cutting commercial banks' short-term external debt, the MNB said a week earlier. ÁKK has around EUR 1bn worth of expiring foreign currency debt to finance this year after a US dollar bond sale worth about EUR 2.4bn-2.5bn in February and Euro bond sales on the domestic market, part of which could come from additional forint-denominated bond sales.

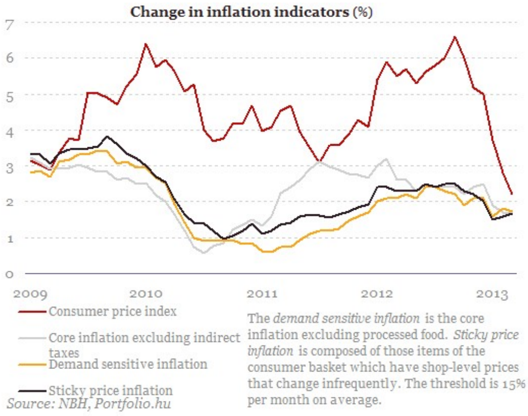
Government looks for new buyers of residency bonds

Every legal condition is given to start selling Hungarian residency bonds in China and Vietnam and the first to have the access to these debt instruments will be non EU citizens living in Hungary, local daily *Magyar Nemzet* reported. The paper reminds that under a law amendment passed last year, a foreign national who have purchased Hungarian government bonds worth at least EUR 250,000 (approximately HUF 70mn) with a minimum 5-year maturity will be granted permanent residence permit in Hungary in a preferential procedure within six months instead of three years being applicable in non-preferential procedures. According to earlier reports, interest for the Hungarian residency bonds is huge in China, Russia and the Middle East. Being granted residency permit does not mean that citizenship will ensue, but it could definitely serve as a stepping board to the EU.

Monetary policy

Inflation at historic low

Hungary's inflation dipped to its lowest level in 38 years, retreating to 2.2% year-on-year in March from 2.8% in February, whereas core inflation remained relatively high at 3.4%. The underlying measures of inflation published by the central bank, however, show a much more favourable situation also in underlying processes, economic website Portfolio concludes.



The most important indicator of all may be core inflation excluding indirect taxes that came in at 1.7% both in February and March. Core inflation excluding indirect taxes (like the other filtered indicators) does not include the impact of the retail energy tariff cut.

It should be best described as a market-based inflation indicator filtered of regulatory and tax measures. This indicates that Hungary's disinflationary process is rooted not only in such temporary factors as the reduction of household energy prices, but the continuously declining level of consumption of the past few years also has a great deal to do with it.

Competitiveness

Hungary's tax burden the 12th highest among EU countries

Tax revenue of the Hungarian state was the equivalent of 37% of GDP in 2011, down from 37.7% in the previous year, data compiled by the European Commission shows. Hungary ranked twelfth in the EU in terms of the overall tax burden compared to the size of the economy. Indirect taxes accounted for 45.8% of all tax revenue in Hungary, according to the EC's data. Taxes accounted for 26.8% of consumption and for 38.4% of labour costs.

FDI could amount to EUR 3bn this year

Net foreign direct investment in Hungary is expected to reach about EUR 3bn this year, the National Economy Ministry said. The amount excludes one-off transactions, such as the sale of German utilities company E.ON's gas business in Hungary, and also excludes capital in transit, that is, FDI bound for third countries, the ministry noted. Net FDI is expected to reach an average annual EUR 3.5bn in the mid-term, excluding one-time effects. Net foreign direct investment in Hungary came to EUR 10.5bn last year, up from EUR 3.8bn in 2011. The accumulated FDI stock in Hungary came to EUR 78.5bn at the end of 2012. Net FDI by Hungarian companies abroad reached EUR 8.2bn last year whereas the total stock of direct investments abroad by Hungarian companies reached EUR 26.3bn at the end of 2012.

SMEs

Széchenyi card subsidy goes up

The government has increased the interest subsidy on the Széchenyi card plan from 2% to 5% on all credit contracts signed this year, official gazette *Magyar Közlöny* reports. The card offers subsidised loans to SMEs.

Business environment

GVH sets sights on cartel deals

The Competition Office (GVH) has set up a separate unit specialising in uncovering cartel agreements from April 15, the regulator announced. The new unit will be in charge of gathering primary evidence required to launch proceedings against companies suspected of breaching competition law. The GVH said its priority is to step up its campaign against such practices, as cartel agreements have a detrimental effect on the economy.

Conjuncture indices show slight improvement

Hungary's seasonally-adjusted Purchasing Managers Index (PMI) fell to 51.7 in April from 55.5 in March, the Hungarian Association of Logistics, Purchasing and Inventory Management (Halpim), which compiles the index. (N.B. An index value above 50 shows expansion in the manufacturing sector, while a value under 50 signals contraction.) Among the sub-indices that comprise the PMI, the new orders index "fell more sharply" but was still over 50. The production volume index fell but still showed expansion. The employment index remained over 50, as it has since January. In turn the Acceleration Indicator (GyIA), a measure of economic and financial indicators compiled by business daily *Világgazdaság*, rose 0.21% in April from the previous month but fell 0.72% from the same month a year earlier, the paper said. The GyIA measures non-food retail sales, real interest rates, the real value of the Budapest Stock Exchange's main BUX index, industrial output, stock of vehicle loans, the yield curve for government securities, money supply and real wages.

Offshore ownership continues to rise

The number of Hungarian companies owned by offshore companies has risen constantly over the past 20 years, and demand for this type of corporate structure has not been affected by any global or domestic crisis, nor by changes to Hungarian tax laws, according to consulting firm Bisnode Magyarország. A total of 1,452 Hungarian companies had at least one Cyprus-based owner, while 1,168 had owners registered in the Seychelles, 906 in Switzerland, 661 in Panama, 584 in Belize, 575 in Luxembourg and 562 in Liechtenstein.

Legislation

Bankruptcy law modified

Parliament modified the bankruptcy law, expanding the time frame for government intervention from one month to a year. In that period the government can classify the company concerned as of national strategic interest. In such cases the receiver will be a state firm with special authorisation.

LPG prices to be cut from July 1st

The price of liquid propane gas sold in cylinders and tanks will be 10% cheaper for households from July 1st, Development Ministry state secretary János Fónagy announced. The present deregulated market will be regulated and prices will be officially set from that date. Fónagy also announced new consumer protection regulations that compel utility service providers to be more flexible in the future on timing the reading of meters. Providers will have to keep photographs of the meters in their files for two years and must provide pre-payment meters free to new consumers if requested.

Way cleared for ethnic Hungarians to open investment accounts

Ethnic Hungarians living in other countries will be able to open investment accounts over the internet in a simplified procedure under an amendment submitted by Economy Minister Mihály Varga and passed by Parliament. The modification to the law on prevention of money-laundering stipulates that the bank or investment provider in question will provide a website on which the potential client can provide his personal data, and send copies of electronically scanned documents by e-mail or by fax.

The bill makes it possible to open accounts without a personal appearance by the client if the client provides data on accounts kept in other countries that can be verified by the investment provider. The change will enter into force on July 1.

Dutch presence in Hungary

Den Hartogh Logistics active in Hungary

Den Hartogh Logistics is a leading Logistics Service Provider for the (petro) chemicals industry. The privately owned company, founded in 1920, today operates from 30 different sites in 17 countries around the globe. It operates its own fleet of over 4,500 tank containers, 400 road barrels, 500 trucks, and about 1,000 employees.

Tha company's services include Global Logistics, Liquid Logistics, Gas Logistics, Tank Cleaning and Repair services, Logistics Management Services, and On Site Logistics Services. The company operates worldwide, with offices in all regions and has its headquarters in the Netherlands.

Den Hartogh Logistics as a Smart Logistics Provider has joined the Green Freight Europe Programme in the beginning of 2013. It is an initiative to intensify collaboration between shippers, logistics providers and governments. The initiative aligns with Den Hartogh's policy towards sustainable logistics and supply chain management. Green Freight Europe is a voluntary and independent programme for improving environmental performance of road freight transport in Europe. Den Hartogh founded its Hungarian company in 1998 and has its office and site in Budapest with 80 employees.

More information: www.denhartogh.com

Environment/Water

Cabinet approves Ős-Dráva projects

The cabinet approved a rehabilitation plan for the Ős-Dráva region as well as infrastructure links to Croatia at a meeting in Kémes, southwest Hungary. Zsolt Tiffán, government commissioner of the project, said the HUF 25bn Ős-Dráva scheme will affect 23 villages in the Ormánság region where unemployment is 35-40% and 80-90% of the working age population are unemployed.

Tiffán, who is also president of the Baranya county council, said the purpose of the plan is to increase livestock breeding, along with vegetable and fruit cultivation, boost the processing industry and to increase employment by restoring the state of the Dráva to its original condition.

New regulation on beverage packaging

Hungary’s government plans to impose a deposit on the non-reusable packaging of beverages, with the single aim to create revenues for the budget. The ecological impact of the measure may be more detrimental than if the current regulations remained in effect, and the retail price of the affected products could rise 30-40%, local news portal index.hu reported. Index.hu obtained a draft on the deposit written for the government in February and approved by Sándor Fazekas, Minister of Rural Development and Zoltán Illés, state secretary at the ministry, which revealed that the only goal of the measure is to beef up state revenues. The document shows that in the year of introduction the deposit could generate HUF

25bn (EUR 84mn) revenues for the budget. It is also mentioned that if a non-refundable VAT was imposed on the deposit, the state would gain another HUF 24.3bn.

The proposal cites the Netherlands as a positive example, although they will abolish the system as of 2015, for they found that - even apart from the high implementation costs - the benefits of the functioning of the system were significantly smaller than its costs.

Transport/Logistics

Chinese company signs statement on building rail bypass

MÁV chairwoman and CEO Ilona Dávid signed a letter of intent on 12 April with the China Railway Construction Corp. on building the so-called V0 railway link to circumvent Budapest. The proposed 113km direct link between Tatabánya and Cegléd will allow train traffic to bypass Budapest for the first time. External economic affairs state secretary Péter Szijjártó said construction could begin in the spring of 2014. If the work is completed by 2017 then Hungary will be the most competitive transit country in Eastern Europe, he said. Szijjártó was visiting Beijing on 18 April to discuss financing of the project from the EUR 1bn credit line announced by the Chinese Prime Minister. The Záhony border crossing to Ukraine must also be modernised to increase the volume of freight transport between the different gauges, Szijjártó added.

Small firm gets e-toll system contract

The government signed a contract with a relatively small Hungarian company, i-Cell, and its partner ARH to build an electronic road toll system in Hungary, according to *Népszabadság*. The system was to be up and running, at least for trucks, by July 1. With that in mind, the government budgeted HUF 75bn (EUR 250mn) in income from the toll system this year. Initially trucks heavier than 3.5 tons will have to pay tolls, based on the distance travelled, for the use of 6,318km of Hungary's road network.

Initially, Getronics was declared winner of the contract after a tender process last year, but the company refused to sign a contract, citing uncertainty and "*an unprecedented degree and form of pressure*".

The government then began a new tender process, which it classified as a state secret. Budapest-based company E-Milorg is the majority owner of i-Cell, a company founded in 1998 to develop and provide mobile communication business applications. The company's annual turnover is close to HUF 500mn (EUR 1.7mn) and it has reported profits in recent years.

Energy/Sustainable energy

Hungary on the track in renewables

At the 7th RENEXPO® international energy trade fair, in his opening speech Pál Kovács, State Secretary in charge of Water Management reminded that Hungary has proposed to increase the share of renewable energy sources to 14.65 % by 2020. According to Kovacs this rate is now by 9.3 %, so Hungary is on the right track to meet the EU commitments. The primary energy consumption in Hungary is committed itself to a 10 % reduction until 2020, which has been completed in 2012 - it was 10.9 % lower. He emphasized that energy saving and efficiency, emissions reduction and sustainability goals can be only achieved if it will be adjusted to the country's capabilities for using renewable energy sources, fossil and nuclear energy.

Foreign ministers defend Nabucco

The foreign ministers of Hungary, Austria, Romania and Bulgaria approached leaders of the European Union in a letter to secure support for the Nabucco gas pipeline project, *MTI* reported.

János Martonyi and his colleagues wrote their letter on the sidelines of a meeting of European foreign ministers in Luxembourg, addressed to European Commission President Jose Manuel Barroso, High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton and Energy Commissioner Günther Oettinger. Signatories to the document argued that Nabucco was instrumental in diversifying energy sources for the community's eastern region. The Nabucco pipeline is to bring gas from Central Asia to Europe, reducing the region's energy dependence on Russia.

Carbon credits sold at lower price

Hungary sold its remaining carbon credits, or 2.587 million EUA (European Units of Account) at an auction on the European Energy Exchange at EUR 2.95, expected to generate HUF 2.3bn (EUR 7.7mn), Leipzig-based EEX said. 15 companies bid for a total amount of 6,615,000 EUAs at the auction, giving a cover ratio of 2.6, EEX told *MTI*. The Development Ministry sold the same amount for EUR 2.76 per unit. Hungary sold 5 million EUA units last autumn in two phases at a much higher price of EUR 6.60 and EUR 6.70, but carbon credit prices have tumbled since. The proceeds will be used to finance investments to boost household energy efficiency.

Industry

Industrial output grows slightly

Industrial output in Hungary grew 0.4% month-on-month in March, according to a Central Statistics Office flash report. Whilst the increase was not significant enough to bump the year-on-year index into the positive range (the actual figure is -0.7% after calendar adjustment), however it is noteworthy that the sector's performance has now been improving in 3 consecutive months, a rare phenomenon indeed. The hike in April is likely to have arisen as a combined result of a shock and a permanent impact.

This suggests that industrial recovery after the increasingly widespread downtimes in December is, after all, a natural correction, with no promise of growth potential for the future. Another (and hopefully more lasting) potential growth factor is the easing of last year's structural changes. The reason why the increased auto industry capacity failed to translate into growth in the industrial sector as a whole is that it was accompanied by major downsizing in other fields (communications, consumer electronics etc.). This trend seems to have eased this year, giving Hungary a chance to see a halt in the on-going decline of its manufacturing sector.

Bosch

Robert Bosch Energy and Body Systems Ltd. is to receive HUF 2.3bn (EUR 7.7mn) of non-refundable EU subsidy in scope of the New Széchenyi Plan, by which it will create 200 new jobs in Miskolc and its vicinity. The German group is carrying out a complex, environment-friendly technological development strategy with an investment of over HUF 6.3bn (EUR 21mn), the Hungarian Economic Development Centre (MAG) announced. Bosch operates 11 subsidiaries in Hungary. The group boosted its turnover on the Hungarian market by 13% year on year to HUF 134 billion in 2011. In early 2012 it had 8,000 employees in the country. Bosch upped its R&D spending by 18% year-on-year to HUF 13bn in 2011.

Automotive

Knorr-Bremse lays foundation stone for HUF 5bn (EUR 17mn) investment

Hungary must be deeply and strongly connected to the German economy, PM Viktor Orbán said as he ceremonially laid the foundation stone of a new Knorr-Bremse factory in Kecskemét. The factory will produce braking systems for rail and commercial vehicles in a 22,000m2 production hall to be completed by the end of the year with a HUF 5bn (EUR 17mn) investment. The state contributed a HUF 1.4bn (EUR 4.7mn) grant, as the project will create 111 jobs. Knorr-Bremse board member Klaus Deller said the company employs 1,800 in Hungary, including 800 in Kecskemét, and that one-third of its suppliers are Hungarian. Knorr-Bremse has been continuously expanding its R&D activity here, benefiting from a government decision to grant priority investment project status to the Kecskemét region, said Hungarian CEO István Lepsényi.

Eagle Ottawa expanding in Szolnok

Canadian company Eagle Ottawa plans to expand and upgrade its Szolnok factory, creating 150 jobs, the automotive leather supplier announced. The town of Szolnok approved the sale of 5.8 hectares of land in the local industrial park, where the company will erect a 5,500m2 production facility. Construction will begin in the spring and is set to be completed in the autumn. Eagle Ottawa will boost staff to 1,000 following the investment.

Construction/Infrastructure

Budapest prepares 27 large projects

The Budapest city council is preparing 27 large projects totalling more than EUR 50mn, the city's mayor, István Tarlós. Budapest will apply for funding available in the 2014-2020 European Union budget period for the projects, Tarlós said. Among the large projects planned, he cited the reconstruction of metro lines 1 and 3, new acquisitions and modernisation of trams and trolley buses, the extension of Budapest's sewage system, the revamp of Chain Bridge and the tunnel under Castle Hill and the modernisation of public utility networks.

Construction rises in February

Construction industry output was up 7.2% year-on-year in February, the first rise in five months, according to data from the Central Statistics Office. The construction of buildings was up 10.5% year-on-year in February, while the construction of other objects saw a 3.9% year-on-year rise. After a survey of 500 companies in the sector, construction association Évosz is forecasting a 5% drop in building projects in the first half, but 2-3% growth in other forms of construction.

Financial services

"Funding for Growth Scheme" announced by Central Bank

Under the scheme announced by MNB on 4 April, The MNB will make a combined HUF 500bn of financing available to banks for SME lending and the conversion of foreign currency-denominated corporate loans into HUF. The MNB will lend the money at 0% and banks interest margin will be limited to 2%. The programme is scheduled to start in June for three months. Furthermore, the central bank aims to cut international reserves by EUR 3bn by reducing short-term external debt, thus lowering the stock of two-week bills from HUF 4,500bn to HUF 3,600 bn. Deputy governor Ádám Balog sent a letter to banks asking them to partner with the MNB in an effort to reduce the country's short-term external debt. Banks could either pay back their short-term external debt, with the MNB's international reserves used to ensure the lenders foreign exchange through swap transactions; or banks could take out money from the MNB's two-week bills – the central bank's main tool for soaking up liquidity – and place it in forint government securities, from which the state could pay off its own external debt, using the MNB's international reserves. The MNB also briefed mid-sized banks on details of the programme. Representatives of those banks welcomed the cooperation and the announcement of the programme. They agreed to conduct regular consultations and to work out details of the scheme.

Banks end 2012 deep in the red

The eight biggest banks in Hungary incurred total losses of HUF 146.6bn (EUR 488mn) last year, *Napi Gazdaság* projected, after revising figures from the financial supervisory. The Hungarian Financial Supervisory Authority (PSzÁF) calculated a loss of HUF 160.6bn (EUR 535mn) for the bank sector as a whole in 2012. CIB suffered the steepest loss, at HUF 152bn (EUR 507mn), followed by MKB's pre-tax loss of HUF 89.2bn (EUR 297mn) and Raiffeisen's HUF 47.4bn (EUR 158mn). OTP remained the most profitable bank, with net profit of HUF 94.6bn (EUR 315mn), and UniCredit is set to announce a HUF 22bn (EUR 73mn) gain. The loan-to-deposit number fell as a result from 113.8% in 2011 to 100% last year. Provisions for losses were reduced from HUF 702bn (EUR 2.3bn) to HUF 616bn (EUR 2bn) in the same period.

Citi takes over ING custody and securities services

Citi Securities and Fund Services entered in to a definitive agreement to acquire ING’s custody and securities services business in seven Central and Eastern European markets currently representing EUR 110bn in assets under custody. The transaction, which is subject to regulatory approval and clearances, includes ING’s local custody and securities services businesses in Bulgaria, the Czech Republic, Hungary, Romania, Russia, Slovakia and Ukraine. Terms of the deal were not disclosed. Subject to standard closing conditions and regulatory approvals, Citi and ING expect this transaction to close in the first quarter 2014.

Research/Innovation

New R+D+I subsidy scheme announced

From 15 April 2013, companies will be eligible to apply for subsidies under the subsidy scheme *"Supporting R+D+I umbrella projects"* (ERNYO_13) in Hungary. Applications from all regions are welcome. Published by the National Development Agency (NFÜ), the subsidy scheme aims to enhance company R+D+I activities. Only new projects are eligible for the subsidy, in proportion with their R+D+I activities during the realisation period. NFÜ has allocated HUF 8.8bn (EUR 30mn) to the subsidy scheme for 2013. The minimum subsidy that may be granted is HUF 40mn (EUR 0.13mn) and the maximum is HUF 1.5bn (EUR 5mn), with a maximum aid intensity rate of 50%. Eligible costs are as follows: wage costs, cost of services purchased from 3rd parties, cost of materials, purchase of assets (depreciation) and intangible assets. Companies that have a proven track record of at least 3 years in carrying out R&D activities and employ at least 40 researchers and product developers engaged in R+D+I with higher educational qualifications in a related field (one month prior to submitting the application) are eligible for support under this programme.

Hungarian MOL wins HUF 340mn grant for R&D&I project

Hungarian oil and gas group MOL won an over HUF 340mn (EUR 1.2mn) non-refundable grant for its Research & Development & Innovation umbrella project. This project enjoys the support of the government, it is managed by the National Development Agency and financed by the Research & Technology Innovation Fund, the company announced. In August 2012 MOL launched investments for 10 different innovation projects in order to develop fuel ingredients and their production, as well as to reduce the level of greenhouse gas emissions. The umbrella project at MOL's Százhalombatta is to absorb more than HUF 800mn (EUR 2.7mn). In scope of the project MOL will carry out developments in crude oil refining, as demand for gasoline declined greatly in Europe over the past few years, while demand for diesel oil had grown before the crisis and the decrease for this product was not as dramatic in the past few years either.

Telecommunication

Mobile operators argue for continuity

Mobile-phone operators argued that continuity in the sector is in the best interest of subscribers as they responded to the telecoms authority NMHH's announcement on 8 April that frequency licences will not be renewed on the same terms as at present. Vodafone said it is ready for dialogue with authorities, and expects fair and equal treatment in the process of renewing licenses. The company's 900Mhz license expires in October 2014. Magyar Telekom expressed hope that a substantive and active dialogue can begin with regulators and service providers that serve equally the interests of the state and subscribers. The extension and harmonisation of the licenses is vital, the company added, as they also affect ongoing large-scale broadband mobile investments.

Microsoft CEO advocates reverse VAT

Microsoft Magyarország CEO István Papp is calling for the introduction of the reverse charge for VAT settlement in the IT sector. Reverse-charge VAT is paid by purchasers rather than sellers of goods and services. This practice, which is already applied in several EU member countries, would result in extra budget revenues of HUF 25-30bn (EUR 83-100mn) a year, claims Papp. He estimated that tax evasion in the IT sector may be as high as HUF 100bn (EUR 333mn) a year, due to the high VAT rate.

Retail

Home appliances, consumer electronics and digital media retail

The Hungarian home appliances, consumer electronics and digital media retail market has been battered by the economic crisis. It returned to growth in 2011, but declined by an estimated 0.5% year on year again in 2012 and since it remained below its 2008, pre-crisis level. However, given the relatively low computer penetration rates, the increasing smartphone market and the switchover to digital television, the Hungarian consumer electronics market has potential for moderate growth in the coming years, particularly in the computer, phone and digital media equipment segments, according to PMR. Specialised chains continue to account for over one-half of the total sales of home appliances, consumer electronics and digital media goods in Hungary. However, the number of large-format grocery stores, such as Auchan and Tesco, that are increasingly offering such goods on their shelves is growing.

Online sales rising steadily

Online sales went up from HUF 155bn (EUR 517mn) in 2011 to HUF 175-180bn (EUR 583-600mn) in 2012, *Világgazdaság* reports. Online commerce rose from 2.4% of the total retail trade in 2011 to 3% last year. Some 5,000-6,000 companies have Hungarian-language websites offering products for sale, according to consultancy eNet. The number of webshops in the company register is 3,600, out of which 1,200 are active. eNet estimates the total market at HUF 160bn (EUR 533mn) and is forecasting 20% growth this year.

Agriculture

Cabinet unveils land lease programme

Rural Development Minister Sándor Fazekas unveiled a large-scale land lease programme after the cabinet gave its approval on 10 April. Under the scheme, small and medium-sized farms can apply for the lease of 200,000 hectares of state land until March 31, 2017. State land fund NFA will evaluate applications in the second half of this year. The land lease scheme to support family farmers has been ongoing since 2011, he said, adding that some 1,600 contracts have been signed in that period for the lease of 36,000 hectares of land. The government is aiming to reduce the share of large-scale farming of land use to 20% from 50%, by helping small farmers to boost their share to 80%, Fazekas said.

Hungarian farmers received HUF 650bn (EUR 2.2bn) in support last year, daily *Magyar Nemzet* said, citing data from agriculture research institute AKI. Wholly EU-funded grants accounted for almost 54% of the pay-outs last year.

Agricultural prices 17% higher

Agricultural producer prices were up 17% year-on-year in February, after an 18.1% rise in January, the Central Statistics Office announced. Plant product prices went up 22.9%, while those of animal products saw 6.5% growth.

Food industry

Nestlé doubles production capacity at pet food factory

Nestlé Hungary has completed a HUF 13bn (EUR 43mn) investment at its pet food factory in Bük, Győr-Moson-Sopron county, creating 168 jobs and doubling production capacity, *Világgazdaság* reports.. Nestlé purchased the factory along with the right to use the Darling brand in 1998. Since then it has invested HUF 35bn (EUR 117mn) in the facility, said managing director Michael Nixon.

Increasing sales of private label food in 2012

The share of private label food products rose from 24% in 2011 to 25% in 2012 by value, while in volume terms their share declined from 35% to 34% during the same period, according to Nielsen market research company. The total value of the sales of private label food products reached HUF 345bn (EUR1.13bn).

Tourism

More foreign tourists in February

Guest nights at commercial accommodation in Hungary were up 8.2% year-on-year in February, as the number of guests rose 11.4%, the Central Statistics Office reports. There was 4% growth in domestic guest nights to 499,000, and a 12.9% rise in foreign guest nights to 489,000. There were 6.5% more domestic tourists, at 320,000, and a 17.9% increase in foreign visitors, 196,000 in the same period. More tourists came from Austria, Italy and Great Britain, but fewer from Germany and Russia. The average occupancy rate was 37%. The average gross room revenue fell 0.7% year-on-year to HUF 13,028 (EUR 43). Of the 2,058 commercial accommodations, 1,419 accept Széchenyi leisure cards.