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Editorial

Contrary to regular “cucumber-season” in Summer, this period was not that quite this year. While some economic indicators show modest recovery of the Hungarian economy, the trend is very fragile, observers warn. Nevertheless, the government’s optimism and self-confidence led to the decision to repay the outstanding part of the IMF loan ahead of schedule which would have been due only next August. As the analysis shows this was a politically motivated decision and its economic importance is secondary for the government. The Monetary Council continued its rate-cutting cycle, although this time the rate cut was smaller than the usual 25bpp, but in line with the announced new monetary strategy of the National Bank of Hungary. The other visible trend-change concerns the fiscal policy: from the latest government decisions one may draw the conclusion that the cabinet’s iron grip on the budget has unequivocally softened. Although the 2014 budget is not to be directly affected by it, it is a sign of [bigger extravagance] [a somewhat more relaxed stance of] the cabinet that the general budget reserves ebbed at a fast pace over the past few weeks. In light of the narrow manoeuvring room it will be interesting to see how the government will solve the problem of the foreign currency mortgages. Details of the scheme proposed by Banking Association are yet unknown, but it is clear that the banking sector will not be making any profits for the foreseeable future.

As to the Embassy’s main activities during this period, the most important event was the Sziget Festival in Budapest, which regularly invites Dutch bands as well attracts thousands of young visitors, this year about 18 thousand. Therefore this was an excellent opportunity to have the “Holland Meets Hungary” stage supported by the Dutch Embassy.

It is also worth mentioning the “Hello Wood”, an international design project of the Moholy-Nagy University, designed and built in collaboration with Philips Lighting and an abstract version of a windmill, a typical Dutch icon, was also installed on the Sziget Festival.

As a member of the “Transparency Working Group” of Embassies we also supported jointly with the UK and the Norwegian embassies the flash-mob organised by Transparency International called “*Dance against corruption*” which project aimed at civic engagement of youngsters. Last but not least, consular services were provided directly on the spot at the Sziget Festival together with some EU countries consular stand called E4U.

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Macroeconomy

Economy shows signs of modest recovery

Hungary's GDP was up 0.5% year-on-year in the second quarter and grew by 0.1% from the first quarter, according to data from the Central Statistics Office. Industry, agriculture and construction were the most improved sectors. Data indicated annual growth for the first time since the fourth quarter of 2011, a fact which has been communicated as a real turning point.

At the annual Hungarian Ambassadors Conference in mid-July PM Orban said "*I would be very surprised if the last quarter of this year would not bring about spectacular growth data*". However, the main structural problem is that the Hungarian economy has sectors that operate well, such as the car industry, construction and agriculture, but these cannot pull the whole economy along. At present it is only manufacturing which is actually able to grow, as agricultural output is heavily dependent on the weather. Domestic consumption will not grow, and fixed capital investments will dive further.

In its Convergence Programme submitted to Brussels in mid-April it projected 1.9% GDP growth for next year. Economy Minister Mihály Varga, told Portfolio portal in July that next year's growth could be slightly higher than that. Analysts have also turned more upbeat about the prospects of the Hungarian economy. The latest consensus forecast of analysts by Reuters was for a 1.5% GDP growth in 2014.

Trade surplus EUR 583mn in June

The trade surplus narrowed in June to EUR 583mn from EUR 769mn a year earlier, the Central Statistical Office (KSH) reported. In the first six months, the value of exports outpaced that of imports by EUR 3.7bn, as both rose 0.9% year-on-year. Analysts were expecting a larger increase in exports due to expanded production in the car industry. In its latest analysis economic researcher GKI projected exports to rise 3% this year after 0.2% growth in 2012. The June trade data fell in line with international trends, as similar declines were reported from Germany and the Czech Republic.

Budgetary policy

Fiscal policy loosening

The fiscal policy of the Hungarian government has taken an unmistakable turn in June, i.e. since the European Union's excessive deficit procedure for the country was abrogated. The measures taken and planned to be implemented draw up the picture of loosened fiscal policy, an analysis by *Portfolio.hu* shows. It was already decided before the summer that - contrary to what the Convergence Programme contained - the career model for teachers will take effect already as of 1 September 2013, including a gradual increase in their wages. This will cost the budget HUF 32.5bn (EUR 108mn) this year and HUF 152.9bn (EUR 0.53bn) in 2014, the cabinet said. It was also decided during the summer that the family tax allowance will be extended. Minister Varga told Portfolio.hu that this would cost the budget HUF 45bn (EUR 150mn) next year.

Another item that could affect the 2014 budget is a relief programme for FX mortgage holders which is currently in the making. According to what has been revealed in this respect so far the more drastic solutions could deliver a blow to the budget - directly or indirectly - to the tune of tens of billions of forints. Last but not least, two thirds of the HUF 100bn (EUR 333mn) budgetary reserves has been used up in last weeks for various projects from renovating churches to building new stadiums, according to government's latest decisions.

EU relations

EU funds temporarily suspended

The EU froze structural and cohesion funds payments in 13 out of 15 Operative Programmes in Hungary citing irregularities in tenders and administration. "*We may lose HUF 500-600bn* 1.7-2bn) *of the HUF 8,200bn* (EUR 27bn) *EU funding available in the 2007-13 period if the government does not take urgent action in the coming weeks*," PMO state secretary János Lázár told a press conference, after that he had been appointed to supervise the National Development Agency (NFÜ) as a government commissioner. At his first staff meeting in the NFÜ he said that the government will urgently work out an action plan to avoid losing EU funding available in the 2007-2013 period.

The later was discussed on 14 August, and decisions made included to create a special task-force to solve administrative obstacles and speed up commitments. Beside the possible fine to be paid for irregularities, there is also a risk of not being able to commit all the funding by the end of 2013, and the possible losses (un-used funding) are estimated at HUF 500-600bn (EUR 1.7bn-2bn). Finally, while the Commission is withholding the disbursement of funds, this is the Hungarian budget which has to pre-finance the on-going projects which temporarily reduces budgetary liquidity. Experts are optimistic however, as the main problems are expected to be solved during Lázár's next negotiations with Commissioner in charge of regional development Hahn in early September.

EU drops telecoms tax challenge against Hungary

On July 23 the European Commission has withdrawn its appeal before the European Court of Justice against Hungary and Spain regarding special taxes on the telecoms sector. The Luxembourg-based court recently ruled that similar legislation in France is compatible with EU regulations, after finding that the 0.9% tax imposed on telecoms companies in France did not constitute an administrative charge, as spelled out in an EU directive. Initially the EC considered the taxes to be incompatible with EU rules which require sector-specific taxes to be reinvested in the sector.

The EU began an infringement procedure against Hungary over this issue in 2011 and referred the country to the European Court when the government refused to revoke its telecoms tax, introduced in 2010. In the event of an adverse ruling, the government would have had to pay back the entire amount of telecoms tax collected from companies since 2010, or HUF 150bn (EUR 500mn).

Monetary policy

Base rate cut further by 0.2%

The Monetary Council cut the Central Bank's key rate by 20 basis points to 3.80% on August 27, slowing an easing cycle that began a year ago. The Monetary Council cut the base rate at each of the previous twelve monthly meetings by a quarter point from 6.75% to 4%. In July, however Central Bank governor György Matolcsy announced a possibility of cutting rates in smaller steps which is uncommon practice in Europe. The Monetary Council said in a statement published after the meeting that the "strong deflationary impact" of weak demand and companies' limited ability to pass on higher production costs into prices allowed "a more accommodative monetary policy stance" with an eye to achieving the bank's 3% medium-term inflation target. Analysts believe that the easing cycle was likely to stop at around 3.5%.

As to inflation, it dropped to 1.8% year-on-year in July but it should be noted that this is greatly influenced by the government's efforts to suppress prices. Without the public-utility fee cut scheme, inflation would stand at above 2.5%. Economists cite looming uncertainty in external markets as one reason why the MNB could be forced to stop lowering the rate, as the rise in yields in developed economies will put pressure on Hungarian assets, increasing the HUF's vulnerability.

Hungary repays IMF debt early

The government has fully repaid its out-standing debt to the IMF in August as the state debt manager ÁKK transferred USD 1.1bn, EUR 500mn and GBP 260mn, as requested by the IMF, the Economy Ministry announced. Parallel to the repayment the IMF closed its Budapest office as requested by the Hungarian government.

The repayment of the remainder of the loan taken out at the height of the financial crisis in 2008 was made from the unused part of the loan, along with revenue from the dollar bond issued in early February and from the Pemák Euro bond issued on the retail market.

Of the EUR 6.5bn (EUR 21mn) line of related credit offered by the EU, Hungary has drawn EUR 5.5bn (EUR 18mn), of which EUR 3.5bn (EUR 11mn) is still outstanding. Portfolio.hu calculates that since 2008, Hungary has paid an average interest rate of 2.5% on the IMF loan, while the yields it has to pay on government bonds range from 4 to 5%. "Getting rid" of the IMF, Portfolio adds, will certainly be "a political asset" for the government, since, according to a recent public opinion survey, 46% of the population believe the administration has to defend the national interest against the IMF.

Employment

200,000 to be hired for public works

The government decided to hire 200,000 unemployed people for public works programmes for the winter of 2013-14, the Economy Ministry announced. The state will take on 100,000 people from November until April. A further 100,000 will be employed from December to March, with an emphasis on training to help participants to obtain jobs in the future. Most of the public works places will be available in the less developed regions such as Szabolcs, Borsod, Hajdú-Bihar and Békés (Eastern Hungary). The ministry has set aside HUF 19bn (EUR 63mn) for the project, and will also draw on HUF 24bn (EUR 80mn) in EU funds. There were nearly 150,000 employed in public works projects in May, up from 105,000 one year earlier.

The average monthly wage of these workers was HUF 78,100 (EUR 260). As a result of increase in public works, the average unemployment rate in Hungary decreased further. It was 10.1 percent in May-July, down from 10.3 percent in April-June data published by the KSH show. On average, 445,800 were unemployed in the period from May to July. The average time spent looking for work was 18 months, according to the National Labour Office data.

Competitiveness

HEBC turns critical in annual report

In its latest annual report, the Hungarian European Business Council (HEBC) pointedly criticised the government which is a noticeable shift from previous practice. The report titled "Confidence and Credibility" complains about the lack of consultations with the business community, *ad hoc* decisions and unpredictable polices, while observing that boosting tax revenues does not in itself create value.

The HEBC points out that investment decisions are not based on momentary mood swings, but on long-term planning. The document adds that special taxes levied on certain sectors not only endanger profitability, but can do more harm than good. The damage caused by the loss of unrealised investments can never be gauged, Philips Hungary chief Zoltán Mészáros remarked at the conference.

HEBC, established in 1998, unites the heads of the Hungarian units of 15 multinational companies, including Dutch companies Royal Philips, Royal Dutch Shell, and AkzoNobel.) In a speech to the annual meeting state secretary for external economic relations Péter Szijjártó said Hungary is aiming to become a centre of European manufacturing, so that it can be in the strongest possible position following the crisis.

In a separate event an other business organisation, the Hungarian Association of International Enterprises also sharpened its language. President János Rudnay demanded "*predictability instead of activism*". From this aspect, "*generalisations and communication that is hostile to multinational companies*" are counterproductive, he added.

Business environment

Business confidence rising

Economic confidence increased slightly in August, according to the index compiled by research institute GKI. A rise in business confidence offset greater pessimism among households from July to August. Interestingly, mostly service sector companies became more optimistic. Opinions regarding the economy improved in the retail and service sectors, but did not change in manufacturing and construction. Meantime the acceleration indicator GYIA, a measure of future economic growth compiled by daily *Világgazdaság*, also rose for the fourth straight month, up 0.4% in August. The data suggest that the economy is set to expand in the third quarter after 0.5% GDP growth in the second quarter. However, the GYIA needs to gain more momentum if the government's 0.7% growth target is to be met, analysts warn.

Anti-corruption courses planned

Anti-corruption courses in ethics will be held for 800 state administration leaders and 8,500 other officials, Administration and Justice Ministry state secretary Bence Rétvári announced after a meeting of the government's anti-corruption working group. The training will help participants to recognise situations in which there is a risk of corruption. NGOs may test the programme before it is launched, Rétvári promised. Transparency International, the Civil Liberties Union and other anti-corruption agencies had quitted the working group in May after the government passed a law blocking public access to data on the procedures followed to award the controversial tobacco retail franchises.

Legislation

SOLVIT, effective problem solving in Europe

SOLVIT is a problem-solving network in which all EU Member States and the European Commission have combined forces to deal with complaints that arise as a result of the misapplication of EU law by public authorities. SOLVIT aspires to provide a genuine solution to complaints free of charge within a period of ten weeks, for both citizens and companies. Cases dealt with by the SOLVIT network typically involve impediments to the free movement of goods and services and freedom of establishment. In order for a complaint to be admissible, there should be a concrete problem as a result of an alleged misapplication of EU law by a public authority. The complaint furthermore needs to have a cross border element and cannot be under judicial review. If the case meets the admissibility criteria, the SOLVIT network will contact the national authority in question and mediate in order to come to a genuine solution in line with EU law. In those cases that are left unsolved, the European Commission may follow up with an infringement procedure against the Member State responsible for the misapplication. For more information and in order to file a complaint, please visit www.solvit.eu.

Transport/Logistics

EBRD approves loan to BKV

The EBRD board of directors approved a EUR 5.4mn loan to BKV for the launch of its e-ticket system, the Budapest public transport company BKV announced. City council is yet to approve the project. The new ticket system will start in 2014, first replacing present passes and later also the paper tickets.

T-Systems wins bike renting tender

T-Systems Magyarország, with Hungarian bicycle maker Schwinn Csepel and Germany's Next Bike as subcontractors, won the contract to create a public bicycle rental system in Budapest, with a bid of HUF 899mn (EUR 3mn). Rival bidder Eurobus-Invest, a member of the Deutsche Bahn group, and owner of bus company VT-Transman, immediately challenged the decision by the Budapest Transport Centre, as its bid was HUF 38.5mn (EUR 128,000) lower than the T-Systems offer, *Index* reports. The bicycles to be made by Schwinn Csepel will feature satellite tracking, which was an advantage in the assessment of the bids. The winner has eight months to design and install 75 docking stations for 1,100 bicycles, with the network to be expanded later. According to the plans, the first 30 minutes of bicycle use will be free. The bike sharing programme has received a HUF 900mn (EUR 3mn) EU development funds.

BKK finds Basque bid best for trams

The Budapest Transport Centre (BKK) selected Spanish company CAF to supply new trams to the city, ahead of a bid from Siemens. CAF's price of HUF 27bn (EUR 90mn) was lower than that offered by Siemens. The three other bidders – Poland's PESA, Czech firm Skoda and Switzerland's Stadler – were excluded for various reasons. The Basque company is to provide 25 shorter and 12 longer trams with low floors. The contract will stipulate a five-year option for a further 87 trams which the BKK may utilise if it has funds.

Energy/Sustainable energy

New electric car charging station opened

The Ministry of Rural Development inaugurated a new electric car charging station in Budapest. The new charging pylon, which contains two charging stations, is the tenth in the capital. According to EU Directive aiming to achieve the widespread use of electric vehicles within the EU 7 thousand such electric car charging stations should be installed throughout the country by 2020. State secretary for

Environmental Affairs Zoltán Illés confirmed that the Government was committed to creating the conditions necessary for the widespread appearance of electrically powered vehicle. In fact the Ministry for Rural Development is the very first public administration body to have acquired electric cars, and their number is expected to increase in future as funding becomes available.

The purchase of gas storage from E.ON approved

The competition watchdog GVH approved the sale of E.ON Földgáz Trade and E.ON Földgáz Storage to state-owned energy company MVM, after a four-month process. The MVM, founded as the state electricity company, will pay EUR 870mn for E.ON's gas storage and gas trade operations in Hungary. Sector analyst found this price rather high although not all the conditions of the deal are known. As to the financing, MVM will take up a EUR 300mn, three-year loan from the Bank of China. The recent EGM also ratified an expansion of MVM's line of credit with UniCredit Bank by HUF 10bn. (EUR 33mn) A new head was also appointed to MVM's natural gas division, who will co-ordinate the activities of the South Stream pipeline project, the AGRI pipeline project, gas transport unit Magyar Gáz Tranzit and the two subsidiaries to be taken over from E.ON.

Alteo building solar farm

Alternative energy company Alteo begun building a solar farm to supply energy to plastics manufacturer Graboplast in Kecskemét. Project company Sunteo is establishing a 243 kilowatt solar cell facility. Alteo plans to sell an annual 250 mega-watt hours of electricity directly to Graboplast after the solar farm starts production in the first quarter of 2014 at the latest. In the project a total of 972 cells will be mounted on the roof of a Graboplast building. The HUF 146mn (EUR 0.5mn) project is receiving a 50% subsidy from EU funds. A return on the investment is expected in 12 years and the solar cells are expected to function for 25 years.

Environment/Water

National water strategy ready

A national water strategy will be completed soon and submitted to the cabinet in September, Regional Development Ministry deputy secretary Péter Kovács said at press conference. The strategy is needed because the water supply assumes growing significance as a consequence of climate change, therefore in the coming years substantial amount of funding will be available for preserving the supply of good quality water. The strategy also proposes the construction of multifunctional water reservoirs that can be used for irrigation, as fish ponds, and for tourism purposes, primarily by utilising EU funds.

Beside flood protection, water problems of lake Balaton, Szigetköz and Homokhátság will be addressed as well. Increase of irrigation will be also a priority, as currently only a small part of the arable land, 80-100 thousand hectares are irrigated. Owners of fruit and vegetable plantations will get support for purchasing energy and water efficient equipment for irrigation, the deputy state secretary added.
The programme will be named after Jenő Kvassay.

Industry

GE expands operation in Fót

General Electric announced the expansion of its oil and gas facility in Fót, with the construction of a 6,000m2 assembly hall to produce control panels for gas and steam turbine power plants. Along with an office building, 114 jobs will be created, including 40 engineering positions. GE did not disclose the size of the investment, but it is more than the HUF 1.8bn (EUR 6mn) cost of setting up the facility in 2008, *Napi Gazdaság* writes. GE Oil & Gas already employs 140 people to design and manufacture intelligent systems and equipment in Fót. The cabinet is expected to decide on tax breaks and subsidies for GE soon, said state secretary for external economic relations Péter Szijjártó.

Bosch inaugurates new headquarters

Economy Minister Mihály Varga signed a strategic agreement with Javier González Pareja, head of the Hungarian operations of industrial group Bosch, at an inauguration ceremony of the company's new headquarters in Budapest. Under the first phase of the development, an 11,000m2 complex has been completed, hosting 350 employees in the fields of development, marketing and administration. The second phase of the investment is to be completed by 2015. The HUF 30bn (EUR 100mn) project received a HUF 2.6bn (EUR 9mn) subsidy from the government. Hungary is home to Bosch's largest European research and development facility outside of Germany. There are 8,500 employees at ten subsidiaries of the company, of whom 1,000 work in R&D. Bosch Hungary revenues rose to an all-time high of HUF 594bn (EUR 2bn) in 2012, up 17% from the previous year.

Industrial output returns to growth

Industrial output was down 0.6% year-on-year in June, while workday adjusted figures show 1.7% growth, according to data of the Central Statistics Office. Output rose 1.2% in June after falling by the same 1.2% in May. For the first half of the year, output was 1.6% lower, despite 10.1% growth in vehicle production, driven entirely by exports. However, output shrank by 2% in the food industry and by 13.3% in computer manufacturing. The rise in vehicle production was not enough to offset the decline in the telecoms sector, the economic institute GKI commented.

Construction/Infrastructure

Orbán aims to renovate more stadiums

Prime Minister Viktor Orbán would like the cabinet to decide this summer on renovating more football stadiums, having already approved plans for stadium upgrades in Mezőkövesd, Diósgyőr, Székesfehérvár and Szombathely. In an interview with the website of the Puskás Ferenc Football Academy in his home town of Felcsút, he said work on the Puskás Stadium in Budapest will soon begin, and will be one of the biggest projects in Central Europe. "*Hungary will be able to host a Champions League final in 2018 or 2019,*" he added. It is important to build Hungarian football culture, Orbán said, as for him "*this is a question of honour*" as "*without national honour and national pride football has no meaning*". Orbán described as successful the sports subsidy system called TAO which allows tax deductions for corporate sponsorship of sports, saying this was instrumental in helping Budapest win the right to host the world swimming championships in 2021. It should be noted, however, that for the projects financed out of TAO the public procurement procedures legislation does not apply.
The government allocated HUF 17.5bn (EUR 58mn) to finance sport-related investments, the big-gest chunks being HUF 6.9bn (EUR 23mn) for the construction of a new football stadium for the Ferencváros football club.

Government awards HUF 75bn in road contracts

The government has recently signed a HUF 75bn (EUR 250mn) framework agreement for road renovations in 2013 and 2014 with various tender winning consortia the official public procurement gazette *Közbeszerzési Értesítő* announced. All toghether more than 340 km of highway, 540 km railway and 1100km of road was built or renovated in the current financial period (2007-13). Of the HUF 450bn (EUR 1.5bn) devoted for transport infrastructure still HUF 28bn (EUR 93mn) should be tendered out before the end of the year otherwise the amount will be lost.

Financial services

The negotiations on the FX mortgage loans continue

Hungary's Bank Association is ready to bear most of the burden of providing relief to foreign currency borrowers with a scheme of its own costing the banks several hundred billion HUF. Bank Association Chairman Mihály Patai said the plan would be spread over several years and meet the government's requirement for a drastic reduction in borrowers' monthly repayments. The government, preparing for elections next year, said last month that it wants to get rid of foreign currency mortgages mainly in CHF. Earlier measures ordered by the government in 2011 caused big losses to banks, but alleviated only partly the plight of many people with foreign currency mortgages caused by heavy depreciation of HUF. The country's mostly foreign-owned banks, which had feared the new programme could inflict further hefty losses on them, presented their own proposals to Economy Minister Mihály Varga. The government has said it may contribute to a relief scheme to convert loans to forints. The MNB proposed gradual conversion (at an exchange rate of 180 HUF/CHF) and forgiving part of principal payments at an annual cost of up to HUF 40bn (EUR 133mn).

Co-ops reluctantly accept state offer

All savings co-operatives accepted the state's offer to exchange their shares in *Takarékbank* for new shares, although the situation has created outrage, according to Antal Varga, head of the savings co-op association *OTSZ*. In effect, the co-ops are giving up their combined majority stake in the umbrella institution Takarékbank, which will be controlled by the state. Members of the co-operatives do not know what rights will they have with the new shares. However he noted that the OTSZ has asked the Constitutional Court and the civil rights ombudsman to review the law on savings co-ops.

The law entered into effect on July 13, quickly after the government's abrupt announcement of the "nationalisation" of 104 credit unions. They were all privately owned but were functioning under the umbrella of *TakarékBank Zrt*. It should be added that *TakarékBank* and its saving cooperatives are really the banks of the Hungarian countryside. They are present in 1,000 smaller towns and villages, which means that they cover about a third of all Hungarian communities.

Insurance market growing, leasing market shrinking

Revenue from premiums of Hungarian insurers rose 5.2% percent to HUF 435.9bn (EUR 1.46bn) in the first half, driven by life insurance products with one-off premiums, the Hungarian Insurers Association (MABISZ) said. After a long period of time, Hungary's insurance market expanded by more than the rate of inflation but its growth is still based on fragile foundations, with the sector's total revenue still lagging far behind the pre-crisis level of 2008, MABISZ added. In turn, leasing companies in Hungary are facing shrinking market. They signed contracts to a total value of HUF 173bn (EUR 577mn) in the first half, down 3% from one year earlier, the Leasing Association announced. The number of new leasing contracts fell 8% from over 35,000 in the first half of 2012.

Research/Innovation

Work on laser centre starts in Szeged

Construction of the European laser research centre ELI-APLS will soon start in Szeged, as all permits have been obtained and the tender for construction work has already been announced, CEO Lóránt Lehrner of the project company announced. The EU provided a HUF 1.6bn (EUR 5.3mn) subsidy for the preparation work. The construction, the first phase of the project, will cost HUF 37bn (EUR 1.2bn), of which 85% will come from the EU. In the 2014-20 EU budget period, an additional HUF 24.3bn (EUR 81mn) will be spent on equipment. The centre is to open in 2015.

Eight funds win Jeremie III subsidies

State development agency NFÜ decided to award EU funds from the Jeremie III scheme to eight venture capital funds, rather than the originally planned three. Plans called for three funds to receive HUF 3bn (EUR 10mn) each, but the NFÜ decided to announce eight winners and to make additional funds available, as the number of applicants was unexpectedly high.

Telecommunication

MTelekom expects huge growth in 4G

Magyar Telekom expects exponential growth in the number of 4G broadband mobile sub-scribers from 40,000-50,000 at present to several hundred thousand by the end of the year, deputy CEO Attila Keszég told a press briefing. The number of 4G-enabled smartphones sold has risen five-fold since January, when the first such models that feature extra fast mobile internet browsing came on the market. The latest mobile technology is currently available in 88 cities and towns in Hungary, amounting to 33-36% penetration. Magyar Telekom was first in Hungary to launch a 4G mobile internet service in 2012.

In a separate event, the EU has agreed to let Hungary and eight other member states postpone the deadline for making the 800Mhz frequency band available for the planned use of wireless broadband services. Member states originally agreed to the launch of 4G broadband services by January 1, 2013 on the 800Mhz frequency, which is becoming vacant as TV broadcasters move from analogue to digital transmissions. The digital switch in Hungary must now be completed by the end of the year. In view of the EU decision, the government might soon invite bids for the 800Mhz spectrum, raising tens of billions of forints from the auction, *Népszabadság* writes. In fact, the analogue television broadcasts was permanently switched off in 14 counties in central Hungary on 30 July. The broadcasts will cease throughout the whole country from November 1, to be replaced by digital services.

Retail

ECE gets permit for shopping mall

German construction company ECE won government approval to build a 55,000m^2 shopping mall in Budapest's Third District, *Figyelő* Online has learned. The Aquincum Center project, still in the conceptual phase, received an exemption from the ban on the construction of shopping malls.

Construction could start in 2014 at the earliest and take two years, at an estimated cost of EUR 150−200mn. The project will include restoration of utilities near the mall, road renovations, and construction of parking for cars and for bicycles. Note that legislation passed in 2011 prohibits the construction of retail units of more than 300m^2 until the end of 2014. A committee of delegates from the Economy and Rural Development Ministries can grant exemptions to the rule.

GAP and Sports Direct to enter Hungarian retail market

GAP**,** a US-based apparel retailer, announced that Hungary is among the countries where it plans to expand in 2013. The two stores planned for Budapest will be launched in partnership with Gottex Brands of Trimera Group.

The stores opened in WestEnd City and Arkad II shopping malls in late August 2013. The retailer sells other apparel brands such as Banana Republic, the Old Navy and Athleta. Sports Direct, a British sportswear retailer, also opened its first store in Budapest inside the Arena Plaza, in July 2013. The British market leader in sportswear retail has 100 stores throughout Europe, and now it has opened its third store in Hungary, following Miskolc and Debrecen.

The new store, with 2,000 m^2 retail area, offers a wide range of sportswear brands: Nike, Adidas, Lonsdale, Puma, and Dunlop. While GAP and Sports Directs have just opened shops in Hungary, Marks & Spencer (M&S) decided to close five shops outside Budapest, but will maintain its six stores in the capital, the clothing retailer announced.

Agriculture

Agricultural interest subsidy doubled

The Rural Development Ministry doubled the interest subsidy on agricultural loans taken by SMEs with the so-called agricultural Széchenyi card, effective July 18, deputy state secretary Zsolt Feldman announced. The interest subsidy is now 4 %. The ministry earmarked HUF 120mn (EUR 400,000) from its budget for the increased subsidy. The ministry is lobbying at the EU to increase the ceiling of subsidies from the present EUR 7,500 to EUR 30,000, and the EU has offered EUR 10,000, Feldman added. Since the introduction of the agricultural Széchenyi card in 2011, some 2,000 applications have been filed for the card. The average size of a loan is HUF 6mn (EUR 20,000).

OTP in deal with agricultural chamber

OTP Bank will issue bank cards to all members of the Chamber of Agriculture offering fast-track services in credit applications, under an agreement signed in August. As membership in the chamber is compulsory, it has some 200,000 members. OTP will build up a creditor database of chamber members, which can be used as reference in future credit applications. Further discounts will be offered to card-holders, similar to those available to VIP clients, but details are still being negotiated, said Fülöp Benedek, head of OTP's agricultural business division. As several foreign-owned banks have recently announced that they do not want to expand in Hungary, OTP has a chance to grow in agriculture financing CEO Sándor Csányi remarked. OTP now has 13% of the agricultural financing market, but Csányi said he would be disappointed this does not rise to 40%.

Hungary to repay some EU funds

Hungary must repay EUR 8.4mn in agricultural subsidies to the EU because of illegal use, the European Commission ruled. Hungary is one of 15 countries that have been ordered to repay a total of EUR

180mn. Hungary has to repay EUR 5mn of incorrectly used land-based subsidies, EUR 3.2mn for improper monitoring of rural development projects and EUR 235,000 of subsidies for live-stock cattle exports, as there were inadequate checks at border crossings.

Food industry

Meat processor opens new plant

Hungaro-Food 2009 has inaugurated a new meat processing plant in Békésszentandrás with annual capacity of 3,500 tonnes, following a HUF 1.3bn investment. The company received a HUF 380mn (EUR 1.2mn) subsidy from the European Agricultural Fund for Rural Development, as well as HUF 86mn from the government and a HUF 380mn subsidised development loan from the MFB. The second phase of construction at the Békés county plant, which will create 50 jobs, began in May, said CEO János Gyekiczky. In a bid to boost exports, the company obtained the BRC food safety certificate in June and met similar guidelines for the export of kosher and halal foods.

Csányi finds fellow investor for new slaughterhouse

OTP chief Sándor Csányi found fellow investors for a slaughterhouse to be built near Mohács for HUF 13-15bn (EUR 43-50mn) as a greenfield investment, he told state news agency MTI. Salami maker Pick, which he owns, is taking part in the project, along with another Hungarian investor. The land has been purchased and construction plans are being drawn up for a facility capable of slaughtering a million pigs per shift each year, Csányi added. He also wants to increase animal husbandry at his farm in Bóly, Baranya county. A second shift will probably be necessary at the new slaughterhouse, he said, as authorities will cut down on illegal animal farming.

Tourism

Tourism headed for strong summer

The number of foreign guests staying in commercial accommodation was up 4.2% year on-year in June, as the number of guest nights increased 2.9% to 1.1 million, according to KSH data. Domestic tourists also spent 1.1 million guest nights in June, a 4.7% increase. American visitors were responsible for much of the increase in guest nights in June, as their numbers were 26% higher, while British tourists spent 15% more guest nights and Russians 10% more. However, fewer tourists came from the traditional strong “sending” countries of Austria and Germany, with declines of 20% and 8%, respectively. The average occupancy rate rose to 52.3% from 50.1% one year earlier, with five-star hotels reporting a 71.5% rate.

Government boosts tourism

According to estimates the volume of tourism this year could beat last year's record by a further 8% with a total of 23-24 million guests nights spent in tourist accommodation by holidaymakers from both at home and abroad, the Office of the Prime Minister's Deputy State Secretary for development programmes Nándor Csepreghy announced. Tourism is responsible for 7% of Hungary's GDP, and the task is to increase this ratio to 15-18% in the coming years. Over 600 development projects of various sizes aimed at increasing Hungary's attractiveness have been realised at a total value of HUF 150bn (EUR 0.5bn) predominantly with the use of EU funding, including among many others the construction of new hotels, projects relating to health tourism, spa expansions, the protection of natural and cultural heritage, and better conditions and infrastructure for their access.

Hungary is however, lagging behind with regard to conference tourism and related infrastructure, and so for example one of the tasks ahead in Budapest is the construction of a new conference centre. In the upcoming 2014-2020 EU financing period the main emphasis in tourism-related development projects would centre around improving the conditions in the catering and accommodation sectors and the realisation of tourist attractions that improve the country's image, including the expansion of thermal spas and the establishment of even more cycling routes.

OMÉK-National Agriculture and Food Exhibition

Date: 18-22 September 2013

More information: http://www.omek2013.hu/en

Ökoindustria-International Environmental Industry, Energy Efficiency and Renewable Energy Exhibition

Date: 25-27 September 2013

More info: http://okoindustria.hu/en

Budapest Water Summit -Business Leaders Forum and Expo

Date: 8-11 October 2013

More info: www.budapestwatersummit.hu

Interested in participation free of charge? For the application form, please, send an e-mail to bdp-ea@minbuza.nl

Renexpo Central Europe-International Energy Trade Fair and Conference

Date: 12-13 March 2014

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