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Hungary Economic News Letter

Embassy of the Kingdom of the Netherlands

November 2013

The latest quarterly data confirmed that the economic crisis is over in Hungary. The economy has started to grow at rate of 1.6% in Q3, while its structure has become healthier: it rests on expansion of several sectors. Moreover, the volume of investments increased by 9.8% and not only state financed investment but also private projects expanded. The impetus will be maintained as recent capacity expansions at Audi and Daimler will lend support to industrial growth, and the construction sector will also perform well, due to state infrastructure projects profiting from the absorption rally of EU funds towards the end of the 2007-13 planning period. The confidence of businesses and consumers reaches the pre-crisis levels and the domestic demand is catching up.

The base rate was also cut further to 3.2%, and three factors make it possible to continue the current easing cycle: the positive inflationary path [partly achieved through price measures in the energy sector]; the degree of financial stability; and developments on international money markets.

However, the exchange rate of HUF failed so far to gain strength on the good macroeconomic and monetary news. Its fate depends much on the way the government will solve the problem of the FX mortgage loans. The non-performing mortgage loans affect some 120,000 clients, to a value of HUF 900bn [EUR 3bn], thus this problem requires a complex strategy, as the Central Bank suggested. The cabinet also called on the judiciary to clarify the main principles regarding foreign-currency mortgage loans for law-suits brought by borrowers against banks. Unfortunately these uncertainties, together with excessive burdens on the financial sector are still hindering the resumption of normal lending activity, which in turn poses risks to financial stability, the EC warned.

As to our activities, the Embassy, together with Port of Rotterdam has been a sponsor of the **TRANSLOG Connect Congress**, the leading transport, logistics and supply chain management event for Central and Eastern Europe on 27-28 November in Budapest. This event attracted more than 500 senior decision-makers from 23 different European countries. In connection to this event, the Embassy organised a working dinner at the Dutch residency for Dutch and Hungarian logistics providers where the guest speaker, **Krisztina Bárdos**, Managing Director of IFKA Public Non-profit Ltd. shed light on the new logistics strategy of the Hungarian government. The presentation was followed by an interesting discussion about how to find a solution to the imbalances of inbound and outbound logistics in Hungary and the region, but also how improving the navigability of the Danube could contribute to find solutions for that.

Bert van der Lingen	*Martijn Homan*	*Marina Varga*	*Éva Szabó*
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EU relations

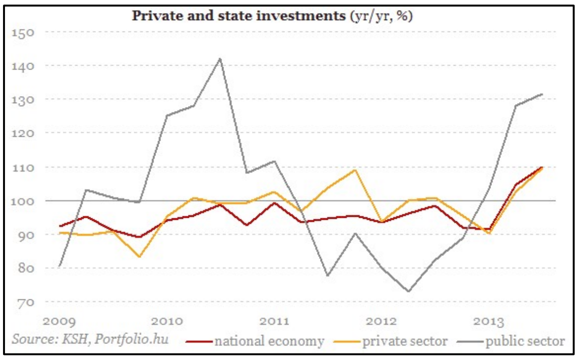
EU warns of imbalances in economy

In a country-specific growth report The European Commission has warned Hungary about existing imbalances in its economy. The EC listed Hungary's factors of instability as the high, albeit declining, state debt at 80% of GDP, the low level of investment, which is stifling growth potential, and the 11% unemployment rate. Declining real estate prices and excessive burdens on the financial sector are hindering the resumption of normal lending activity, which poses risks to financial stability, the report warns. This low growth potential, coupled with high state debt, makes Hungary vulnerable, which has been reflected in high bond yields. The report adds that costs associated with the foreign-currency mortgage relief plan and the taxes on banks may further dampen credit. The EC will carry out further analyses in the form of in-depth re-views of 16 countries, including Hungary.

As to the forecast, the EC expects Hungary's budget deficit to stay below the 3% of GDP threshold in both 2013 and 2014, according to the quarterly forecast. As a result, the threat that Hungary will again be subject to the excessive deficit procedure is avoided. The EC projects GDP growth of 0.7% for Hungary this year, 1.8% next year, and 2.1% in 2015. The corresponding figures in the government's official forecast are 0.7%, 2% and 2.3%.

Macroeconomy

Investment shows signs of recovery



The volume of investments in Hungary's national economy increased by 9.8% in the third quarter of 2013 compared to the same period of the previous year. The rise in the investment volume has not been this large since end-2011. Expansions were recorded in the vast majority of sections, CSO said. Within the 9.8% growth of investments in Q3, investments in machinery and equipment rose by 10.1% and investments in construction by 9.5%. A rise in vehicle manufacturing capacities, state projects for transportation development and flood protection also contributed to this increase. The NBH's Funding for Growth Scheme must have contributed to the growth in investments to some extent, but not significantly yet.

The growth of private sector investments was almost a double-digit figure in Q3. It is also a welcome change that investment activity rose also in the retail and communication sectors which are burdened by crisis taxes. The investment performance of the energy sector, however, appears to be negative. Uncertainty over the future of this segment clearly takes its toll on the willingness to invest there. It would be necessary for the improvement of Hungary's weak potential growth to have market-based lending recover and also that vehicle manufacturing would not be the only large-weight sector to contribute meaningfully to growth, the Portfolio website's analysis concludes.

Budgetary policy

State to take on all local debt

The government will take over all remaining outstanding debt from local governments by February 24 2014, Prime Minister's Office leader János Lázár announced. The amount in question adds up to HUF 420bn (EUR 1.3bn). In the first half of the year the government took over all debt owed by communities with fewer than 5,000 persons and 60-70% of the debt owed by larger towns, to a total of HUF 620bn (EUR 2.1bn).

Budget modifications keep Parliament busy

The Budget Committee of Parliament submitted a hefty package of modifications to the draft of the 2014 budget, which in practice means feeding government proposals into the legislative pipeline. The majority of proposals are just to move money from one pocket to another, parallel to further reduction of reserves. Meanwhile, the 2013 Budget is modified for eighth time this year as a result of which the Fiscal Council no longer projects that the 2.7% deficit target will be met this year, although it still believes the shortfall can be kept under 3.0% of GDP. As a cautious criticism it also noted that the frequent rewriting of the budget reduces its technical calculability even if the individual modifications are professionally justified.

Monetary policy

Inflation under 1% in October

The latest headline figure of 0.9% for month of October indicates weak inflationary pressure even if the 3.4% core inflation figure shows that the price level is being pushed lower by several one-off factors. The biggest influence is, of course, exerted by the utility tariff cuts, the second round of which will be gauged in the November price index. As this in itself may lower prices by a full percentage point, it cannot be excluded that Hungary's CPI will be negative at the end of the year. With several factors pushing inflation down it did not even cause a problem that financial services became more expensive. The rise in the FTT drove fees higher by 20% over a two-month period.

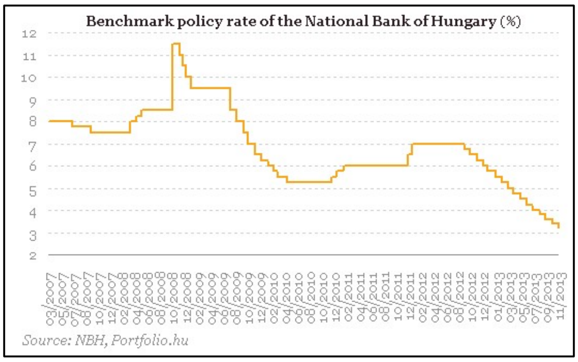
Consumer price changes (October 2013, %)

	m/m chge.	yr/yr chge.
Food	0.1	1.1
Alcohol and tobacco	0.1	10.5
Apparel	1.9	-1.4
Durable consumer goods	-0.1	-1.9
Household energy	0.1	-8.9
Other goods, motor fuels	-2.1	-1.5
Services	0.0	3.8
Consumer price index	**-0.3**	**0.9**
Core inflation (seas. adjust)	0.1	3.4
Senior consumer basket	-0.1	0.7

Source: KSH, Portfolio.hu

Base rate at 3.2%

Parallel to the deceleration of price increases, the monetary council continued to cut the base rate and will presumably do as long as the external investor sentiment leaves room for monetary easing. Hungarian rate setters cut the central bank's key rate by 20 basis points to 3.20 percent at its last rate setting meeting of the month, part of an easing cycle that began over a year ago. Actually this was the 16th consecutive policy meeting when the MPC reduced the central bank's benchmark policy rate and the fourth time when a 20basis points cut was delivered (after 25bp cuts previously). The market was expecting this outcome, although one member of the MPC voted in October to slow the pace down.



Employment

Real wages up 4.9% year-on-year in September

Real wages rose for the ninth consecutive month in September, up 4.9% year-on-year, the Central Statistics Office reported. Net wages rose an annualised 6.4% and gross wages by 5%, while inflation remained near historic lows at 1.4%.

The number employed in the private sector was flat at 1.83 million, while those in the public sector rose by 5.3% to 835,000. There was a 35,000 rise in the number of public workers in September to 145,000. The increase in the number of jobs and the parallel rise in real wages have stabilised the financial status of households, the Economy Ministry said in a statement. Analysts project that net wage growth will outpace that of gross wage this year, due to the phase out of the super-gross tax scheme.

The government has started talks on the minimum wage for 2014, which could exceed a monthly HUF 100,000 (EUR 330) labour affairs state secretary Sándor Czomba said. Talks with unions and employers will be completed by early December. In Hungary, 750,000 employees receive the minimum wage.

Competitiveness

Impact of sectoral taxes

In some extreme cases sectoral taxes and market regulations have reduced or even wiped out the entire value of some companies in recent years, according to a research report by tax consultant Mazars. The cuts in electricity and heating prices will leave HUF 200bn (EUR 0.66bn) in the pockets of consumers, while reducing the value of companies in the sector by HUF 2 trillion (EUR 6.6bn). The electronic road toll fee introduced in July will generate HUF 150bn annually (EUR 0.5bn), but that is costing hauler companies HUF 1-1.5 trillion (EUR 3.3-5bn), Mazars said.

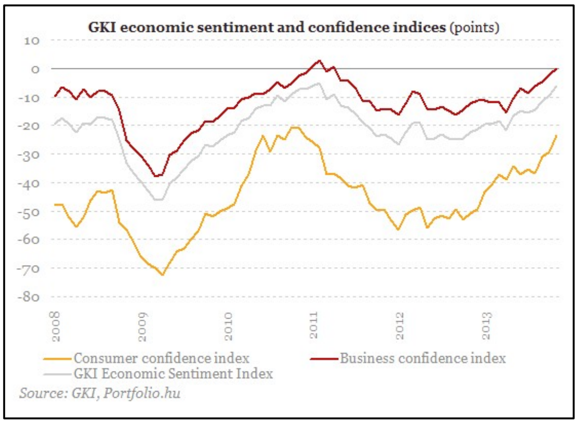
NFÜ lists non-transparent companies

State development agency NFÜ has published a list of those subsidised companies and NGOs that failed to provide data on their ownership structure for a third time. A questionnaire specifically asked recipients of state funding about the presence of offshore owners. Some 700-750 companies and NGOs on the list are engaged in 800 subsidised projects. The NFÜ will reclaim HUF 50bn (EUR 166mn) in subsidies, because of the lack of transparency.

Business environment

Confidence of businesses and households up

According to the latest GKI's confidence index, in the business sphere industrial companies became much more optimistic, whereas expectations remained virtually unchanged in other sectors. In November, the industrial confidence index continued its rise that had started at the end of the summer.



Expectations about the development of the Hungarian economy improved markedly in construction and among households, they improved slightly in services, remained unchanged in industry, and declined in trade. GKI's consumer confidence index increased in November at a rate rarely seen in a single month. Households felt their future financial situation and the possibility of purchasing high-value durables much more favourable, whereas they assessed their savings capacity slightly better than in October.

Late payments damaging the economy

Hungarian companies paid their invoices in 43 days, on average, in 2013, placing Hungary in the middle ranks in Europe, according to a survey by credit manager Intrum Justitia. State institutions took an average of 55 days to pay invoices. Hungarian companies, mostly SMEs, are forced to write off some 4% of their annual turnover as losses, due to non- or late payment, said Tamás Szűcs, head of the European Commission's Hungarian office. In the EU business-to-business payments took 49 day delays while state institutions tend to pay up after 61 days. Across the 28 EU countries, the total value of late invoice payments came to EUR 340bn, twice the annual budget of the EU.

Legislation

Hungary joins the Convention on greater tax transparency

State secretary for Taxation and Financial Policy Affairs Gábor Orbán signed the Multilateral Convention during a ceremony at the OECD in Paris. OECD Secretary-General Angel Gurría welcomed Hungary's recent steps toward greater tax transparency. "*Today's signing is an important signal that Hungary is seriously committed to the international fight against offshore tax avoidance and evasion*" he said.

PM Orbán told newswire MTI that the accession can contribute to the OECD action plan, which is also supported by Hungary, to prevent base erosion and profit shifting. The convention can provide Hungary with new tools to effectively battle international tax avoidance, while ensuring a more effective implementation of its own internal tax regulations among the member states, he added. The Convention must now be ratified by Hungary.

The Multilateral Convention provides for all forms of mutual assistance: exchange on request, spontaneous exchange, tax examinations abroad, simultaneous tax examinations and assistance in tax collection, while protecting taxpayers' rights. It also provides the option to undertake automatic exchange, requiring an agreement between the Parties interested in adopting this form of assistance.

Dutch presence in Hungary

Regent Security Systems

The Hungarian subsidiary was set up in 2013 with headquarters in Barcs, aiming to cover whole Hungary within the years to come and to this end recruiting sales staff. Regent Security is a Dutch company, specialised in surveillance system to secure homes and business. As a market leader, Regent Security Systems always develops new high quality products based on customer needs. The video surveillance system comprises video baby monitors, security cameras (bullet, dome, fake, IP, spy, and wireless), digital video recorders (DVRs), complete camera systems (equipped with night vision), CCTV monitors, accessories, and power supplies. Typically, a complete surveillance kit is made up of a series of cameras connected (be that wired or wirelessly) to a DVR which records those images and in turn displays those images on a monitor. Such DVRs are made by Jablotron Technology, the strategic partner of Regent Security. As a service provider working in many diversified environments, Regent Security aims to develop long-term life cycle partnerships with its clients. More information: www.regent-security.eu

Transport/Logistics

Bicycle rental network to start in April

The Bubi bicycle rental network is expected to start operating in Budapest next April, MOL CEO Zsolt Hernádi and mayor István Tarlós announced. MOL, as chief sponsor of the project, will provide almost half of the estimated HUF 250mn (EUR 0.8mn) annual costs of the system. The remainder will be paid by the city, which will receive the revenue from the rentals. Installation of the terminals will begin in February. The bicycles and parking stations will be protected by a GPS-based tracking system and cameras. According to preliminary estimates, 12,000 people will use the bicycles daily. The bicycles will be available for rent with the use of electronic cards or bank cards. Use of the bikes will be free for the first 30 minutes. It should be noted that bicycle traffic has grown five-fold in Budapest since 1994.

Energy/Sustainable energy

Tatabánya switching to biomass, Pécs to biogas

Power plant Tatabánya Erőmű is investing some HUF 5bn (EUR 16mn) to convert to biomass fuel from natural gas by 2015. The power plant provides heat to some 23,000 households. The utility company, owned 51% by the local government, received a HUF 1.5bn (EUR 5mn) state subsidy for the project.

Tatabánya Erőmű will utilise 150,000-170,000 tonnes of woodchips instead of its annual consumption of 60 million cubic metres of gas.

In a separate event, Tettye Forrásház, the waterworks owned by the city of Pécs, laid the foundation stone of its new biogas power plant at its sewage treatment unit. The 12,000m2 plant will cost HUF 2.1bn (EUR 7mn), of which HUF 925mn (EUR 3mn) is an EU subsidy, and will be operated by a subsidiary, Biomű-Baranya. Maximum capacity of 5 million kWh will be reached by burning methane, production of which will cut the amount of sewage mud to be dumped by 30%.

MVM cuts wholesale electricity price

State energy company MVM reduced its wholesale price of electricity from 17.6 HUF/kWh to 15.15 Ft/kWh charged to distributors, in what *Népszabadság* calls a surprise move. This 13.9% cut decreases MVM revenues by HUF 20bn (EUR 66mn) annually, the newspaper adds. The actual figures of the utility cut valid from November 1 were published in official gazette *Magyar Közlöny*. Hungarian power plants are producing less electricity, as the amount generated in the first nine months was down 9.6% from one year earlier, electricity grid operator Mavir announced. The operation of gas-fuelled power plants is becoming less profitable, the energy and utility authority MEKH added. On the other hand, the total electricity used in Hungary decreased only 0.7% in the first nine months while net imports of electricity have risen.

Industry

Orbán sets manufacturing target

Hungary must continue its policy of reindustrialisation to boost the ratio of manufacturing output to GDP, PM Viktor Orbán declared. Hungary is currently third or fourth in the EU in this respect, but aims to be first in 12-18 months, he told reporters after talks in Budapest with European Economic and Social Committee president Henri Malosse. "*We must become a manufacturing centre, for which re-industrialisation is necessary*" Orban declared.

Industrial output shows 5.5% growth

Industrial output was 5.5% higher, year-on-year, in September, the Central Statistics Office announced. The key to the growth in industrial output is the car industry and related manufacturing. The stock of orders has grown by more than 10% in recent months, indicating that the output cycle has entered a new phase, argued András Balatoni of ING Bank.

Construction/Infrastructure

HUF 21bn (EUR 70mn) for football stadium projects

The cabinet discussed the possibility of upgrading and enlarging 26 stadiums around the country by 2016 at a cost of over HUF 21bn (EUR 70mn), *Népszabadság* reports. Most funds, HUF 5bn (EUR 17mn), would be granted to the Kispest Honvéd football club in Budapest's 19th District to build a stadium capable of seating 8,000 people. Stadiums would also be built or renovated for the Vasas football club in the 13th District, as well as in Nyíregyháza and Zalaegerszeg, each at a cost of HUF 1bn (EUR 3.3mn), and in Békéscsaba for HUF 800mn (EUR 2.7mn). Stadiums for Budapest club Ferencváros, Debrecen and Felcsút will shortly be completed, a mini-arena is being renovated in Mezőkövesd, and projects in Szombathely, Székesfehérvár and Miskolc will require tens of billions of HUF. Reconstruction of Budapest's Puskás Ferenc stadium could cost over HUF 50bn (EUR 167mn), the newspaper says. Planned stadiums in Pécs, Kaposvár and Paks will require over HUF 2bn (EUR 6.7mn). Meanwhile, the Hungarian Athletics Federation will be granted a total of HUF 18bn (EUR 60mn) and the Hungarian Boxing Federation HUF 560mn (EUR 1.9mn) by 2020 in the framework of sports development subsidies, *Népszava* reports. State secretary István Simicskó said athletics will receive HUF 375mn (EUR 1.3mn) this year. He said HUF 12bn (EUR 40mn) will be spent on developing sports facilities, HUF 1bn (EUR 3.3mn) on academies and HUF 2.3bn (EUR 7.7mn) on young athletes.

Financial services

Banks back into black in Q3

After incurring losses in the second quarter of 2013, the Hungarian banking sector has again posted profit in the July-September period, the latest figures of the central bank (NBH) showed. The average profitability of the banks improved somewhat, but the level of profitability remains extremely low. Moreover, the profitability of the banks show a rather large fluctuation: there are still major differences (massive profits and heavy losses) between the individual credit institutions. Credit institutions operating as joint stock companies, i.e. the majority of the banks, posted HUF 13bn (EUR 43mn) combined after-tax profit in the third quarter of 2013. Co-operative credit institutions (mainly saving co-operatives) broke even in Q3. The one-off payment obligation slapped on the banks to make up for the lower-than-expected revenues from the financial transaction tax (FTT) burdened Q3 results too, as the banks must pay this in four equal instalments from September to December. It is almost certain now that contrary to the government's earlier plans card payments will not be exempted from the financial transaction tax (FTT) in 2014.

Meanwhile, Parliament passed legislation ensuring two cash withdrawals a month (up to HUF 150,000 in total) free of charge. Exempting card payments from the FTT would have left HUF 5bn (EUR 16mn) annually at the banks and would have mitigated the competitive disadvantage of electronic payments versus cash payments, to be created by the new measure.

New FX debt easing package to come

The new foreign-currency debtor aid package was presented by the government, in effect extending the previous fixed-rate scheme to more foreign currency debtors. Contrary to earlier announcements, the program was not opened to all debtors, as the earlier eligibility requirement of having no debt more than 90 days overdue will not be abolished, but extended to 180 days. According to data on the MNB website, more than half of the foreign-currency debtors whose payments are more than 90 days overdue have failed to maintain payments for more than a year. According to the scheme, the state will guarantee the fixed and market exchange rate differential accumulating on the debtors accounts only on those loans where the mortgage does not exceed 95% of the value of the home when the borrower joined the scheme. Banks can call in such guarantees on the exchange rate difference only if they cancel part of the loan, *Napi Gazdaság* observes. However, in order to implement the package, the government decided to first clarify the legal uncertainities and asked the Kuria (Supreme Court) to clarify the main principles regarding foreign-currency mortgage loans for law-suits brought by borrowers against banks. It should be added that of the 2,500 ongoing lawsuits, 60 have been closed with binding rulings, and only six have gone against banks, said Kúria official György Wellmann.

MNB sees financial sector stable

The three biggest risks facing the bank sector are the tight lending conditions for companies, high household debts and the continuing low profitability of the sector, the MNB writes in its latest Financial Stability Report. This persistently low profitability may prompt some large, foreign-owned banks to leave the market, the MNB said. Noting that non-performing mortgage loans in forints and other currencies affect some 120,000 clients, to a value of HUF 900bn, the MNB said this problem requires a complex strategy, including the introduction of personal bankruptcy. Debtors pay a disproportionately large amount of their income, 25%, on servicing their debt, the report noted. More generally, the MNB declared the Hungarian financial system stable and strong in terms of its shock-absorbing capacity. The capital adequacy ratio of 16.6% is considered high in international comparison. The liquidity of the banking sector is adequate, with a loan-to-deposit ratio of 110%, close to the "healthy" 100% level.

As to corporate lending, the stock of loans grew by HUF 130bn in the third quarter, first substantial increase since the start of the crisis. The rise is not solely attributable to the MNB's stimulus, the report admits, lending rates tracked the decline in the base rate, making access to credit easier for businesses. The SMEs received HUF 701bn (EUR 2.3bn) in funding in the first phase of the Funding for Growth scheme, which is to be followed by another HUF 500bn (EUR 1.8bn) of capital. The MNB estimates that the first phase of the programme boosted the economy by 0.2-0.5% and the second phase.

Research/Innovation

Orbán opens Buda research centre

Prime Minister Viktor Orbán formally opened five facilities at the Hungarian Academy of Sciences' Scientific Research Centre in Budapest's 11th District. The Academy bought the abandoned building in 2010 from the Technical University and transformed it into the research centre in 20 months at a cost of HUF 9.5bn (EUR 32mn). "*We do not want to be the assembly hall of Europe but want to take our share of developing research,*" Orbán declared at the opening ceremony. He stressed that the facility was built during a most severe crisis, as the government agreed with the Academy to increase funding for science every year. A similar building is to be built for sociologists at a cost of HUF 8bn (EUR 27mn) by 2015.

Egis opens new R&D facility

The government signed a strategic co-operation agreement with pharmaceutical company Egis at the opening ceremony for the company's new research facility, where the drug maker will develop active ingredients. Egis received HUF 1.15bn (EUR 3.8mn) from the state and the EU for the HUF 4.6bn (EUR 15.3mn) investment.
The strategic agreement offers benefits for both parties, said CEO István Hodász. In the last 20 years, the French-owned company invested HUF 140bn (EUR 467mn), half of that since 2008. The company boosted its exports by 59% since the crisis, mostly to Eastern markets, and 80% of its HUF 130bn (EUR 433mn) annual revenue now comes from exports. Egis opened two new R&D facilities last year after a HUF 7bn (EUR 23mn) investment, with annual R&D spending is HUF 12bn (EUR 40mn).
The pharmaceutical industry is a strategically important sector of the economy, due to its innovative nature and its high percentage of exports, said economic relations state secretary Péter Szijjártó. Drug companies account for half of all non-state financed R&D spending and employ 14,000 directly and 38,000 through suppliers.

Telecommunication

Deutsche Telekom buys GTS

Deutsche Telekom is buying GTS Central Europe for EUR 546mn, which controls fibre optics networks in the Czech Republic, Hungary, Poland, Romania and Slovakia. Its Hungarian unit offers voice, internet and data services throughout the country. It employed 203 persons last year, but lost HUF 1.4bn (EUR 4.7mn) on revenue of HUF 11.4bn (EUR 38mn). With the purchase Deutsche Telekom, the parent company of Magyar Telekom, will strengthen its business-to-business services and will be able to offer integrated products where it is present on the fixed-line market to only a limited extent.

Kapsch signs HUF 14bn (EUR 47mn) GSM-R contract

The consortium of Kapsch Carrier and MVM unit Ovit signed the HUF 13.7bn (EUR 47mn) contract for installing GSM-R technology on 935km of Hungarian railway track by the end of 2015. The technology allows communication between trains and rail control centres. The tender was awarded by state info-communications company NISZ. Kapsch Carrier CEO Kari Kapsch said the contract is of priority interest to the Austrian company, as Hungary plays a key role in European transport due to its geographical position. The GSM-R technology is important because three Pan-European rail lines crosses the country.

Transport

Airport may expand in 2-3 years

Budapest Airport its working to keep the older Terminal 1 in a condition that allows it to be reopened at any time, the company's property development director René Droese told *Budapester Zeitung*, *Napi*

Gazdaság reports. He noted that capacity at Terminal 2 will meet demand in the next two or three years. Droese complained that construction of a hotel at the airport is delayed by administrative difficulties.

Consultations on transport strategy

The Ministry of National Development launched a one-month social consultation on a new national transport strategy before government discussions on the issue begin. The aim of the strategy, which will provide guidelines for developments to 2050, is to exploit Hungary's role as a transport hub to ensure the conditions for sustainable growth. Development programmes for 2014-20 should find the right balance between a railway-friendly approach and public road development expectations, the ministry said.

Orbán opens Huawei logistics centre

Only those countries that are open to China will remain standing after the crisis, PM Viktor Orbán declared at the opening of a European logistics centre of Chinese telecoms company Huawei in Biatorbágy, Pest county. The company announced in September that it would build a 30,000m2 logistics centre capable of handling 3,000 trucks a month. Huawei plans to double the number of Hungarian employees by 2015 to 3,000. The Biatorbágy centre will be Huawei's second largest logistics base in the world. Huawei will serve 70 countries in Europe, North Africa, and the Middle East from its Biatorbágy centre. PM Orbán said the government aims to boost exports to non-European countries from the present 11% of the total to 33% by 2018.

Retail

New online retailer enters Hungary

One of the leading online retailers in Bulgaria and Romania, eMAG, has entered Hungary. The company is offering over 10,000 home electronics products in 13 categories. The company is part of Allegro Group Europe, which owns auction website vatera.hu, online advertiser aprod.hu and online shopping mall grando.hu. More generally, market researcher eNet expects online retail sales to rise from HUF 177bn (EUR 590mn) in 2012 to over HUF 200bn (EUR 667mn) this year. As the last two months of the year account for 25% of all sales, sales could exceed HUF 46bn (EUR 153mn) in the Christmas season. High-resolution flat-screen televisions, tablet computers and smartphones will be this year's favourite holiday items, according to eNet.

Agriculture

Kishantos organic farm resists NFA decision

Greenpeace led some 100 protesters in objecting to state land fund NFA's decision not to extend the lease of the famous Kishantos organic farm in central Hungary beyond October 31. The NFA intends to lease the 452 hectares of land instead to ten new lessees, but the non-profit farm is refusing to vacate the land. The organic farm in Fejér county was set up in 1992 and in recent years has conducted agricultural research and provided courses to those studying organic farming. Its programme must run for one more year, otherwise EU subsidies must be paid back, *Népszava* writes. The NFA dismissed the complaints as political.

Food industry

Cabinet slashes VAT on live hogs

The cabinet decided to reduce the VAT on live hogs or slaughtered pigs sold by producers from 27% to 5% as of January 1. The move is aimed at phasing out black-market trade in the sector, but will not make the retail price of pork cheaper, *Népszabadság* writes. As a result of the reduced VAT, legitimate meat processors will no longer have to compete with tax-dodging competitors who buy meat illegally, and farmers will be less likely to sell their products to those in the shadow market, the newspaper adds. The budget shortfall from the VAT cuts is estimated at HUF 10bn, but the effects of whitening the sector will probably offset that, Minister of rural Development Sándor Fazekas noted. The ministry will assess the result of the tax cut, only a first step, which could be followed for other sectors and food items, depending on the results, he said.

Orbán hopes to restore sugar sector

Magyar Cukor, Hungary's sole sugar refinery, inaugurated a 60,000-tonne silo in Kaposvár, after a HUF 3bn investment. Austrian parent company Agrana has invested HUF 10bn in the company since 2007, CEO László Hájos told *Napi Gazdaság*. The refinery will process 750-800 tonnes of sugar beet this year. Some 80% of its energy will come from biogas obtained from by-products. Agrana will invest an additional HUF 3bn (on construction of a new biogas plant next year.

PM Viktor Orbán said it is vital for the government and Magyar Cukor to preserve and expand beet and sugar production, as one of the top priorities of the economy. There is a chance that the EU sugar quota could be abolished in 2017, which could lead to the rapid redevelopment of the once booming Hungarian industry, he added. PM Orbán said the cabinet will seek EU approval for the introduction of reverse VAT in the industry. This would help whitewash the sector and boost state revenues, as happened with the reverse VAT on grains, he argued.

Events

AGROmashEXPO-AgrárgépShow

International Agriculture and Agricultural Machinery Exhibition

Date: 29 January – 1 February 2014

Organiser: Hungexpo

More information: www.agromashexpo.hu

Budapest Boat Show

International Boat Exhibition

Date: 13-16 February 2014

Organiser: Hungexpo

More information: www.boatshow.hu