



Hungary Economic News Letter

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Editorial

The most important question that has kept the financial markets in uncertainty - who is going to be the new central bank governor - was finally answered. The Minister of National Economy, György Matolcsy, was nominated by the Prime Minister only in the very last moment.

Some analysts expect that Mr. Matolcsy will devalue the currency in order to boost growth whilst providing additional liquidity to newly formed state owned retail and corporate banking institutions to support household balance sheets and try and boost growth in a 'strategic partnership' with the government.

At last last policy meeting of the month still under the outgoing governor Simor, the base rate was lowered by yet another 25 basis points to 5.25%, the lowest level since 2010. So the currency devaluation in sight with many analysts predicting a 10% gradual weakening. Central bank governor Simor's departure was also overshadowed by a recent critical State Audit Office report screening the central bank's policies, considered by some analysts to be a political attack on the departing Banker.

Mr. Matolcsy's post is given to Mihály Varga, who served as a finance minister in the first Orbán government. Analysts believe that Varga is a "*fiscally orthodox and conservative policy maker*", but he will have his hands tied by PM Orbán on policy, even if Mr. Varga asks for certain freedoms in how he addresses fiscal policy in keeping with the EDP-requirements.

The other important question - namely how much of EU funds will Hungary get in the next financial period between 2014-2020 - had been also answered in the long negotiations in Brussels. The total amount is EUR 24.2bn which is lower than the funding in the previous period, but still was considered as a victory by the negotiating Prime Minister. While the total envelop will be smaller, the subsidies for Hungarian farmers will rise by HUF 500bn (EUR 1.7bn) in the next seven years. The planning procedures, allocation priorities and the distribution mechanism will be changed considerably however. The speeding up the disbursement of the current funds, however remains an urgent issue.

It should be also mentioned that the president of the Hungarian State Audit Office, László Domokos handed over the Hagelmayer Prize to the President of the Dutch Court of Auditors, Ms. Saskia Stuiveling. The main reason for this award is that the bilateral Dutch-Hungarian co-operation in the field of auditing and transparency, including in the field of the development of "Integrity Based Administration" is exemplary.

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European Affairs

Hungary to receive EUR 24.2bn in the next MFF

Hungary's per capita net position will be second in the European Union after Lithuania in line with the EU 2014-2020 financial framework agreed in Brussels, PM Viktor Orbán said after the summit of EU Heads of State and Government. Orbán said HUF 7,1bn (EUR 24.2bn) worth of EU funding is allocated to Hungary for the period 2014-2020. This will equal HUF 710,000 per capita in the financing period. In future, decisions about the utilisation of EU funds will be made at the ministries instead of the National Development Agency. It has not yet been decided when the agency would hand over this function at the start of the new fiscal period only or there would be a gradual takeover.

The use of EU funds will be co-ordinated by the Prime Minister's Office.

Economic policy

Mihály Varga nominated an Economic Minister

The incoming Economic Minister Mihály Varga told at parliamentary committee hearing that with his appointment the direction and aims of economic policy will not change, but added that he could apply different means because both the domestic economy and its environment will change in the meantime. Varga reiterated the three existing economic policy goals - the reduction of the budget deficit and state debt, as well as higher employment - he added a fourth objective, the increase of economic growth which he will also treat as a priority. In this respect he noted that even a 1-2% increase in the cc. HUF 7,000bn corporate loan stock would be beneficial for the economy. Varga said excessive lending is detrimental but without a good banking system there can be no growth. He noted that lending is necessary but in itself it will not suffice. You need interest rates at which businesses do take out credit, he explained. Varga said he will continue the consultations with the banks.

Hungary performs moderately in OECD survey on well-being

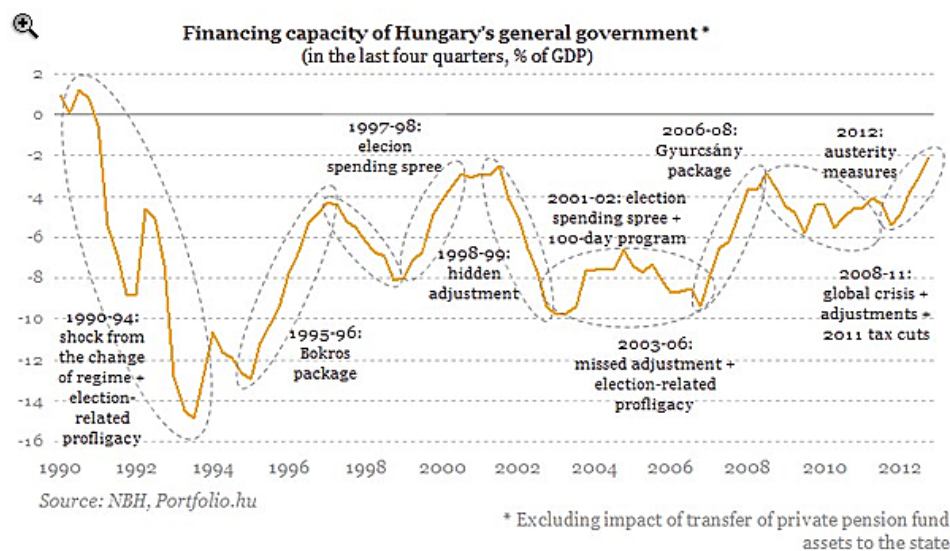
Hungarians are less satisfied with their lives than the OECD average, with 69% of people saying they have more positive experiences in an average day (feelings of rest, pride in accomplishment, enjoyment, etc) than negative ones (pain, worry, sadness, boredom, etc). This figure is lower than the OECD average of 80%. Voter turnout, a measure of public trust in government and of citizens' participation in the political process, was 64% during recent elections; below the OECD average of 73%. The organisation also noted that there is little difference in voting levels across society; "suggesting there is room for broader social inclusion in Hungary's democratic institutions." In terms of health, life expectancy at birth in Hungary is 74 years, lower than the OECD average of 80 years. Life expectancy for women is 78 years, compared with 70 for men. In Hungary, the average person earns 13 696 USD a year, less than the OECD average of 22 387 USD a year. But there is a considerable gap between the richest and poorest - the top 20% of the population earn nearly four times as much as the bottom 20%. People in Hungary work 1 961 hours a year, more than the OECD average.

Budgetary policy

Convergence programme under preparation

Hungary may revise its growth forecast for 2013 in its Convergence Programme to be submitted to the European Commission in April, an Economy Ministry official said. Ministry also confirmed that the deficit came in below the 2.7% of gross domestic product target in 2012. Hungary's government will update its previous macroeconomic prognoses published in October 2012 in its Convergence Programme to be sent to Brussels in April. This means the ministry sticks to its 0.9% GDP growth estimate for 2013. The consensus forecast of analysts in a Reuters poll published is for 0% output growth this year.

According to preliminary financial accounts data published by the central bank (NBH), Hungary's general government net lending was equal to -2.1% of GDP in 2012. General government consolidated gross debt at nominal value amounted to 79% of GDP at the end of last year, i.e. the debt-to-GDP ratio could not decrease in the last three quarters.



Households double state debt holdings

The amount of government securities held by Hungarian households exceeded HUF 1tn (EUR 3.3bn) at the end of January, state debt manager ÁKK announced. The figure has grown from HUF 512.7bn (EUR 1.7bn) at the beginning of 2012 to HUF 1tn (EUR 3.5bn). The ÁKK sold HUF 402bn (EUR 1.3bn) in discount treasury bills in the last 13 months. The inflation-adjusted premium government bond was also popular, with HUF 94bn (EUR 313mn) worth sold to households.

Monetary policy

The Monetary Policy Council cut the policy rate by another 25 basis points

This was the seventh consecutive monthly policy meeting when the MPC reduced the base rate by 25 basis points. The 5.25% benchmark interest rate is at its lowest point since 2010. Arguments used by those supporting monetary easing have become ever stronger over the past few months and February proved no exception. The global investment environment remains very favourable, with capital flowing into emerging markets. The inflation picture has also improved further: the January CPI, which is always watched very closely, undershot expectations. It seems that disinflation gained momentum not only from the one-off government measures, but also from the slack domestic demand and inflation expectations.

Employment

Government extends job preservation scheme

Companies can again apply for subsidies for job preservation from the Economy Ministry this year, employment policy state secretary Sándor Czomba announced. The government has earmarked HUF 10bn (EUR 33mn) for the programme this year, as in 2012. In the last two years, 996 SMEs received HUF 12.3bn (EUR 41mn), which helped to preserve 12,000 jobs and create another 7,100, Czomba added. The government expects to give grants to 700-800 companies in 2013, supporting the creation of 5,000 jobs and the preservation of 10,000 others. Companies can apply until April 5 and applications will be evaluated by the end of May.

Real wages fall further

Real wages declined 3.5% on average last year, the steepest decline since 2007, the Central Statistics Office (CSO) reported. The average 2% rise in net wages, excluding family benefits, was well below the 5.7% inflation rate for 2012. The average monthly gross wage of full-time employees was up 4.6% y-o-y to HUF 223,000 (EUR 743). Gross wages were HUF 233,700 (EUR 779) for private-sector staff, and HUF 214,900 (EUR 716) for public-sector employees. The average monthly wage of public works

participants was HUF 73,200 (EUR 244), down 12%. Gross wages were highest in the financial and insurance sectors, at HUF 460,000 (EUR 1,533), followed by IT and communications at HUF 410,000 (EUR 1,367). The Economy Ministry attributed the decline in purchasing power to the shrinking wages in public works schemes. The real wages could rise by 1.5% this year, due to the increase of the minimum wage above inflation and the phasing out of the so-called "super gross" in which taxable income is increased by the 27% social security contribution payable by employers.

The average number employed in 2012 was 2.674 million, a decline of 17,100 from one year earlier. The public sector employed 751,000, a rise of 16,700, while 1.87 million were working in the private sector, 34,000 fewer than in 2011. Companies may have cut staff due to the rise in minimum wages, analysts told *Napi Gazdaság*.

Competitiveness

Investments fall for fifth straight year

The volume of fixed capital investments in Hungary was 7.9% lower in the fourth quarter of 2012 than one year earlier, and down 3.7% from the previous quarter, the CSO announced. Investment volume shrank by 5.2% in 2012, the fifth straight year of decline. Investment activity declined in 16 of the 19 sectors monitored. Investments in manufacturing, which constitute one-third of the total, were up 5.3% y-o-y in the fourth quarter, despite a high base number. Despite the gloomy report, the Economy Ministry highlighted the growth in investments in the automotive sector. The volume of investments in the info-communication sector was up by 10.9%, attributed to network development and the switch to digital broadcasting. The 36.4% decrease in investments related to education was due to the completion of universities' large investment projects co-financed by the EU. The large decline in fixed capital investment did not catch analysts off guard, as the fourth-quarter GDP showed that recession deepened in the fourth quarter, declining 2.7% on an annual basis. The manufacturing sector, led by investments in the car industry alone cannot break the declining trend. Analysts do not see a change in trend as external factors for growth remain neutral, while there is no sign of any rebound in the domestic environment.

SMEs

Subsidy opportunity for job-creating investments of SMEs

The Ministry for National Economy announced that from February it shall be accepting applications for subsidy on job-creating investments of micro-, small- and medium-sized enterprises. The main objectives of the subsidy are to promote new job-creating investments, to narrow regional differences, to strengthen the market positions of SMEs, and to encourage the employment of job seekers. In 2013, the budget for subsidising job-creating investments is HUF 10bn (EUR32.7mn). The maximum subsidy for each new job created is HUF 1.5mn which can be increased to HUF 3mn in case of completion of certain criteria (e.g. employment of registered job seekers, place of investment in disadvantaged area).

Business environment

Database to link suppliers and buyers

State investment and trade agency HITA has developed a database that will serve as a virtual marketplace for qualified suppliers and larger companies as customers. Access to the database, the first of its kind in Hungary, will be free of charge for qualified suppliers. Initially, SMEs in the car and electronics industries can upload their company profiles and products. The database will later be extended to cover other sectors, said Tamás Kokas, a deputy head of investment relations at HITA. There are more than 500 companies whose profile can be linked to vehicle industry in Hungary and the Carpathian Basin, he added.

M&A activity plummeted in 2012

The value of mergers and acquisitions in Hungary dived 69% last year to USD 550mn, partner Margaret Dezse of consultancy Ernst & Young estimates. The MA market reached USD 2.5bn in 2010, and USD 1.8bn in 2011, before dropping to USD 550mn in 2012, Dezse said, excluding state companies. The number of transactions dropped from 111 in 2011 to 82 last year. The value was revealed in 32% of

transactions, down from 43% in 2011. No transaction over USD 100mn was announced in 2012, as the average of the announced values was USD 6.7mn.

Legislation

New bill on tobacco kiosks submitted

Development Minister Zsuzsa Németh filed a bill on expanding the range of products that can be sold in the planned licensed tobacco kiosks when tobacco retail becomes a state monopoly. In addition to tobacco products and state gaming products, such outlets will be permitted to sell alcohol, energy drinks, newspapers, magazines, journals and “*other products defined by law*”. This modification must be approved by the EU competition authority. Shops with a tobacco license can open on May 1, before the state monopoly on retail sale of tobacco enters into force on July 1. Retailers who have tobacco stocks but who will not have a license will have until July 16 to clear their stocks.

Construction bill regulates payments

The bill filed recently on more rigorous rules for payment of subcontractors in construction projects incorporates most of the suggestions put forward by the construction association Évosz, its president László Koji said. As chief contractors often withhold payment by saying that the work has not been carried out properly, a new authority to be formed by July 1 will verify that work has been completed. Any challenges to its rulings will be referred to court in a fast-track procedure. The court will have the power to order that the subcontractor be paid as soon as the procedure starts, if a potential repayment is guaranteed. The EU guideline on making payments within 30 days will be applied from March 15, with a default interest penalty for late payment of eight percentage points above the base rate. Évosz still recommends minimum fees in order to prevent extremely low bids that can only be made with bad intentions, Koji added.

Dutch presence in Hungary

Interflon Hungary Kft

At the beginning of the 80's, Interflon introduced a lubricant with an extreme low friction coefficient. It was Wim Horsmans who discovered a technology to make microscopic little particles from a PTFE variant, which were found to be suitable to develop a stable lubricant. In this way, it could be perfectly used in a lubricant in order to reach a very low friction coefficient. This development – started in Mr. Hormans' shed at home – has grown into a multinational company with more than 300 employees and organisations in 44 countries around the world. Interflon's technical advisors are always on location-site advising the end-users of their customers how to solve lubrication related issues and/or reach cost savings. This integrated solutions approach of Interflon draws on years of experience from more than 130.000 customers working in virtually every industry.

In Hungary Interflon is represented exclusively by Interflon Hungary Kft since 2006. Located in Budapest and with a warehouse in Szeged, the company serves the customers with a team of 8 professionals all around Hungary. More information: www.interflon.com

Industry/Automotive

Opel announces EUR 130mn expansion

Opel is investing EUR 130mn to expand its unit in Szentgotthárd, vice president Joachim Koschnicke announced at a joint press conference with Prime Minister Viktor Orbán in the Parliament building. The production area will expand by 1,600m² to accommodate a new unit that will produce 130,000 diesel engines annually, in addition to the 293,000 made last year. The new project raises Opel's total investment in Hungary since GM built the Szentgotthárd factory in 1990 to EUR 1.4bn, Koschnicke noted. The factory boosted engine production by 30% in 2012 after a new engine production line was opened in September, completing a EUR 500mn project.

Rába signs new pact with Volvo

Rába signed a co-operation agreement with the Volvo group on producing vehicles for mass transport needs in Hungary, the state-owned axle and vehicle maker announced on the stock exchange website.

As Volvo undertook to offset its trade with Hungary, it will buy Hungarian goods to balance its shipments to Rába. As a result, Rába will export more axles, consistent with its core profile. A strategic bus market co-operation deal was signed in Parliament by Volvo Bus Corp.'s European business development director Stefan Guttman and Rába chairman and CEO István Pintér. The Hungarian Bus Makers Association objected, saying that domestic bus makers have recently invested in new technology to boost their annual capacity to 1,000 buses. This will be annulled if a multinational company sells its products completed with Rába components to state coach company Volán and Budapest transport company BKV, the Association said.

Construction/Infrastructure

Construction materials centre opens

Thirteen construction material makers have joined forces to create a knowledge center in Budapest. The 600m² showroom and innovation center, named C3 Atelier, was built in six months from a HUF 100mn (EUR 0.3m) investment. Similar facilities operate in Vienna and Paris, epiteszforum.hu observed. Visitors can learn about the latest usage of cement and concrete, including the work of Áron Losonczy, the inventor of transparent concrete.

New Museum Quarter planned

A tender for proposals to be submitted on the arrangement of the five new buildings of the Museum Quarter planned in Budapest City Park will be announced in the spring and an international tender for architectural plans will be invited in the second half of 2013, László Báán, who is in charge of the project, said at a press roundtable. Under the concept, one of the new buildings will house the modern part of the merged collection of the Museum of Fine Arts and the Hungarian National Gallery. The Museum of Ethnography, the Hungarian Museum of Photography, the Ludwig Museum and the House of Hungarian Music will all be placed in the new building complex. As part of the concept of developing the 100-hectare City Park into a major family tourism destination of Europe, the Budapest Zoo would also be expanded, while the Budapest Circus will be moved to a new premises. The entire development concept of the City Park is expected to be put before the government by April 30, he said. Báán said earlier this month that the government would allocate HUF 70bn (EUR 240m) for the museum quarter project, 90% of which would come from EU funds. The project is planned to be completed by 2018.

Construction at lowest ebb since 1989

Hungary's construction industry output declined by 5.9% in 2012, and is now below the level recorded in 1989, the Central Statistics Office announced. Total orders stood at HUF 1.5tn (EUR 5bn) in December, up 14.7% from one year earlier. State orders, especially EU-funded projects keep the construction industry "on a life-support machine," *Népszabadság* writes. Construction prices rose 1.9% in 2012, well below the 5.7% inflation. The volume of new contracts was up 6%, while the total volume of contracts was up 25.6% y-o-y in December. The fact that the number of contracts is rising while output is decreasing indicates that 20-25% of the contracts are not realised, said László Koji, head of construction company association Évosz. Évosz sees a further 2-3% drop in the first half this year and stagnation in the second half.

Services

Le Cheque Déjeuner to leave Hungary

French food voucher issuer Le Cheque Déjeuner is reportedly leaving Hungary, because it has been squeezed out of the HUF 300bn (EUR 1bn) market along with Sodexo and Edenred. The company did not comment on the report. Hungary made the issue of food vouchers a state monopoly from January 1, 2012, drawing protest from the French companies. The EU has started an infringement procedure over the issue. Vouchers issued by Le Cheque Déjeuner are valid until May 31.

Financial services

MFB strikes deals with savings co-ops

State development bank MFB, owner of 38% of Takarékbank, has signed an agreement with 23 savings co-operatives that have joined the Takarékpont network. As a result, MFB products will be available at 445 savings co-operatives across the country, said MFB chairman and CEO László Baranyay. MFB's acquisition of a stake in Takarékbank last year has helped greatly to find partners, he added. MFB expects to boost its lending portfolio by HUF 100bn (EUR 333mn) this year. Savings co-operatives that joined the network saw their lending portfolio rise by 35% since the start of the crisis, while deposits rose 20%. Total assets contracted 10% in the bank sector but grew by 30% among savings co-operatives in the same period.

Banks hopeful of rise in lending

Lending conditions eased last year for retail clients and a similar trend is expected for businesses this year, for the first time since the second quarter of 2011, according to the latest lending survey by the National Bank. The falling base rate and improving capital and liquidity position of banks point to increasing lending activity, but risks in the economic environment remain, according to the report.

The 14 banks surveyed expect demand for consumer loans to rise in the first half and most are projecting a rise in state-subsidised home loans. Banks have experienced rising demand for short-term loans from businesses, according to the survey. The percentage of bad loans rose to 16.3% for households but fell for business from 21% to 19%. The lending portfolio of banks is expected to drop or remain flat at best and no change in that trend before the end of 2014 can be expected, analysts commented.

Banking sector losses reach HUF 160bn (EUR 533mn)

The Hungarian banking sector had losses of HUF 160bn (EUR 533mn) after taxes in 2012, less than the HUF 243bn (EUR 810mn) losses for 2011, the financial supervisory Pszáf announced. The main reasons for the loss-making are the poor quality of loan portfolios and loss provisions made to a total of HUF 142bn (EUR 473mn), as well as the bank tax. Loss-making banks amassed shortfalls of HUF 306bn (EUR 1bn) last year, while profit-making ones earned a total of HUF 146bn (EUR 487mn). More than two thirds of the profits were made by three banks, while 88% of the total losses were also recorded by three banks, the Pszáf added.

Insurance market extends decline

Premium revenues of the insurance sector fell 6% year-on-year to HUF 768bn (EUR 2.6bn) in 2012 after a 2.8% contraction in 2011, insurers association Mabisz announced. With the exception of 2010, premium revenues have declined every year since 2008, *Népszabadság* writes. The number of policies fell by 140,000 in 2012 to 10.8 million by the end of the year. In comparison, the total number of insurance contracts reached 11.6 million in 2008. Life insurance revenues were down 9% to HUF 398.8bn (EUR 1.3bn) last year. Non-life revenues were only 3% lower in 2012, despite large falls in compulsory and voluntary vehicle insurance revenues.

Leasing market posts feeble growth

Hungary's leasing market showed signs of a slow recovery last year, as the gross value of assets financed by leasing firms went up 2% to HUF 351.2bn (EUR 1.2bn), Hungarian Leasing Association president Gábor Lévai announced. In 2007, before the crisis, the markets' annual financing was HUF 1.2tn (EUR 4bn), which had plunged to HUF 300bn (EUR 1bn) by 2010. The number of contracts signed fell 10% to 68,570 in 2012. The total value leased by Association member companies declined by 20% last year to HUF 1.6tn (EUR 5.3bn) at the end of December, due to the expiry of contracts. New car fleet contracts rose 31% last year, while the leasing of machinery investments increased 9%, including a 42% rise in leasing of agricultural machinery.

Telecommunication

State Treasury picks software maker

IT company Dorsum, the only company invited to bid, has won a HUF 488.7mn (EUR 1.6mn) contract from the state Treasury MÁK to expand the infrastructure of state bond sales, *Napi Gazdaság* reports. Dorsum was the only invited bidder, *Napi Gazdaság* writes, because the MÁK has been using its software application Clavis, optimised for government bond transactions and account keeping, for ten years

Transport

Győr airport gets permits

Construction tenders for the expansion of the Győr-Pér airport are being announced now, as the project has received all necessary permits, the CEO of the airport operator confirmed. Reconstruction of the runway will cost EUR 4.2mn, a new landing system EUR 1.4mn, support buildings EUR 0.6m and additional equipment EUR 0.5m, the operator estimates. Bids have been invited for construction of the runway and landing system. After the modernisation, the airport will be able to service Boeing 737 and Airbus 320 aircraft, mostly used by low-cost airlines. The runway will be completed by June and the landing system somewhat later.

City announces public bicycle tender

The Budapest Transport Centre has invited bids for the creation of a public bicycle system by the spring of 2014. Bicycles stored at docking stations will be available to the public, with no charge for use of the bicycle for less than 30 minutes. Registered users will have unlimited access to the system, while occasional users will be able to register with bank cards. The first phase envisages over 1,500 docking stations for 1,100 bicycles. The EU is granting a HUF 900mn (EUR 3mn) subsidy for the project, with matching funds coming from the city of Budapest.

Cabinet approves HUF 360bn green-filed rail project

The government has given its approval for the construction of a cargo rail track to bypass Budapest from an estimated HUF 360bn (EUR 1.2bn), state secretary for external economic relations Péter Szijjártó announced. Construction of the 113km double-track line between Tatabánya and Cegléd could start in 2014 and would take three years to complete. It would allow freight trains to travel at up to 160 km per hour. The project, the first new rail track in Hungary in 64 years, would reduce the travel time across Hungary for rail freight transport from four or five days to one, Szijjártó said. The estimated cost of the freight transport ring around Budapest is HUF 360bn (EUR 1.21bn), which would be covered from a EUR 1bn extendable Chinese credit facility.

HungaroControl opens leading-edge air traffic center

State-owned HungaroControl officially opened its new air traffic control center at Budapest's international airport, after a HUF 13bn (EUR 43mn) investment. The company financed 85% of the costs from its own resources, and received a EUR 6mn EU subsidy for the project. The new, three-storey air traffic control tower on 10,000m² of floor space is equipped with state of the art technology. The older control center will be turned into a knowledge and training center. The new air traffic control center is among the leading ones in Europe in terms of network infrastructure and technology, said HungaroControl CEO Kornél Szepessy. HungaroControl handles 16,000 flights daily and will remotely direct air traffic over Kosovo from the new center.

Energy

Energy poverty 10% in Hungary

About 10% of Hungarian households spend at least a third of their income on energy bills in 2012, placing them below the EU energy poverty threshold, according to an EU study. Hungarian households spent on average 20% of their income on energy, compared to 16% in Poland, 10% in Romania and 5% in the Czech Republic. The problem is most prevalent in gas-heated homes outside of Budapest. CSO data indicate that the average household spends HUF 73,000 (EUR 243) a month on bills, HUF 42,000 (EUR 140) of that on heating. The 10% cut in utility fees might save households HUF 7,300 (EUR 24) a month, but insulation could save them HUF 15,000 (EUR 50).

New bill hits energy distributors

Fidesz MPs filed an amendment to energy legislation in Parliament on 19 February that would increase the frequency of compulsory reading of electricity and gas meters from annual to quarterly. The bill states that meter readers must work until 8 p.m., a stipulation seen as helping Magyar Posta, only recently entered the meter-reading business. More frequent checks of meters might reduce energy theft, *Napi Gazdaság* argues. Suppliers will be permitted to cut services when payment is more than 60 days overdue. The bill will also ban the outsourcing of distribution or modifications to present contracts by energy distributors. According to observers, this will prevent the possibility of energy companies spinning off unprofitable activities and forcing the state to take over the loss-making activities in the regulated market. Electricity distributors will be required to have a customer service office in each of the 176 towns in Hungary.

MVM sets sights on Macedonia

The Hungarian-Macedonian joint economic committee agreed on co-operation in the field of energy, opening the door for state energy company MVM to bid on tenders in Macedonia, external economic relations state secretary Péter Szijjártó announced. MVM is to submit bids for tenders in the maintenance and management of the electricity system in Macedonia. State-owned export financier Eximbank has begun talks in Macedonia on opening a EUR 5-10mn line of credit, Szijjártó said.

Retail

Sales of durables in a downturn in January-October 2012

Sales of durable goods continued to decline during the first 10 months of 2012 in comparison with the same period one year earlier, market research company *GfK* reports. Only the most fashionable product categories, such as tablets and e-readers, experienced growing sales volumes during this period. Sales of monitors and desktop PCs decreased the most – declines of 51% and 48%, respectively, – while sales of netbooks and notebook saw their sales volume shrunk 23% by volume and 15% by value during the same period. Demand for white goods was also down during the first 10 months of 2012.

Sales of household chemicals and cosmetics up in 2012

Sales of household chemicals and cosmetics products in Hungary reached HUF 313bn (EUR 1.1bn) in 2012, which is HUF 13bn (EUR 44.4mn) more than in 2011, *Nielsen* reported. As far as the different retail channels are concerned, discount stores and supermarkets enjoyed a 9% year-on-year increase in their sales revenues from household chemicals and cosmetics last year. Smaller traditional retail stores (with 51-200 m² in retail area) have seen their revenues from household chemicals and cosmetics sales to rise by 5%. As far as their market share is concerned, specialised cosmetics stores, supermarkets and discount stores saw their market share rise by 1% to 18% in 2012. Hypermarkets experienced a 2% decline in their market share.

CBA first big retailer to go online

Food retail chain CBA launched an online store, where customers can choose 3,000 products, from pastries and meat to non-perishable goods, CBA communications director announced. Home delivery will be available in Budapest and surroundings in the first phase. Customers can choose when to take delivery of the products, which could be at night too. CBA will use its distribution center in the 21st District to supply online customers. Online food retailing is set to expand, as Tesco is expected to launch a web service in March. Other retailers such as Auchan and Spar are studying the market but have made no commitments yet. CBA generates annual sales of HUF 500bn (EUR 1.7bn), with a strong presence in the capital, *Napi Gazdaság* notes. According to GKIeNET, the estimated value of the online retail market in 2012 was HUF 177bn (EUR 601mn), which made up 3% of the country's total retail market. In 2012 about 1.6 million people made an online purchase (compared to 1.4 million in the prior year). This is one-fifth of the population aged over 14 years.

Environment/Water

EUR 91mn funding approved for flood protection

EC approved a EUR 91mn project for flood protection on the Hungarian stretch of the Danube, as a part of the Danube region strategy. The project includes renovation of existing dams and construction of new

ones along 200 kilometers and includes 12 flood areas and 14 flood protection sections and more than 20 stretches of dams to be fortified. The total project is EUR 107mn and will be financed mainly from the Cohesion fund.

Agriculture

Farmers subsidies to rise by HUF 500bn (EUR 1.7bn)

State subsidies for Hungarian farmers will rise by HUF 500bn (EUR 1.7bn) in the next seven years, PM Viktor Orbán announced alongside Regional Development Minister Sándor Fazekas. Speaking after talks in Parliament with the Hungarian Farmers and Farming Co-operatives Federation and the Chamber of Agriculture, he said Hungarians have to date been at a disadvantage in land-based funding in relation to West European farmers but now the same amount of subsidies will be paid per hectare to Hungary. The land-based subsidies, the so-called direct subsidies to farmers, will rise by HUF 480-500bn (EUR 1.6-1.7bn) in the next seven years from the 2007-13 period, depending on the forint exchange rate, Orbán said.

Agriculture prices up 15% in 2012

Agricultural producer prices went up 15.4% in 2012, down from 19.3% in 2011, the Central Statistics Office reported. Agricultural prices were 18.1% higher, year-on-year, in December. Prices of plant products went up 26.1%, while animal products and livestock increased 4.5%. Grain prices shot up 39.6%. Fruits cost 14.2% more in December but vegetable producer prices were only 3.9% higher.

Food industry

Palinka tax case goes to the European Court of Justice

The European Commission decided to refer Hungary to the European Court of Justice for granting an exemption from excise duty to the production of fruit distillates (pálinka). Hungary exempts pálinka from excise duty when it is produced by households or distilleries for personal use, up to a maximum of 50 litres a year. *"Excise duties for alcohol are harmonised under EU legislation in order to avoid distortions of competition in the internal market (Directive 92/83/EEC). Under that Directive, Hungary is allowed to grant a 50% reduction of the normal excise rate to pálinka produced by distilleries, for personal use, up to 50 litres a year. The exemption applied by Hungary to the production of pálinka therefore goes beyond what is allowed under EU legislation,"* the EC said in a statement.

Danone basing regional HQ in Hungary

French food company Danone will base its regional operations in Budapest, as part of an overhaul of its European structure, the company announced. Danone subsidiaries in Slovakia, Croatia the Czech Republic and Hungary will form one unit. The company aims to cut administrative cuts with the structural reorganisation, to be completed by 2014. Danone will cut 900 jobs at managerial level across Europe by 2014.

Tourism

More foreign visitors in 2012

The number of foreigners staying at commercial accommodation in Hungary rose 8.1% to 4.1 million in 2012, the CSO announced. The visitors spent a total of 11.3 million guest nights in the country, an 8.5% rise from 2011. State tourism promotion agency Magyar Turizmus had targeted 3.6% growth in guest nights last year. Of all foreign guest nights spent in Hungary, 59% were spent in Budapest and its surroundings, a 12.5% increase. Observers note that low-cost air-lines bring more tourists to the capital since the collapse of Malév.

Events

CONSTRUMA: 32nd International Building Trade Exhibition

Co-events: **HUNGAROTHERM Building Engineering, HOME DESIGN** and **URB:Icon Exhibitions**

Date: 10-14 April 2013

Organiser: Hungexpo

More info: www.construma.hu

RENEXPO® Central Europe: 7th International Renewable Energy Trade Fair

Date: 25–27 April 2013

Organiser: Reeco

More information: www.renexpo-budapest.com

INDUSTRIAUTOMATION: International Industrial and Automation Trade Exhibition

Co-event: **MACH-TECH International Trade Exhibition of Machine Manufacturing and Welding Technology**

Date: 28-31 May 2013

Organiser: Hungexpo

More information: www.industriautomation.hu